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IN THE

Supreme Court of the United States

OCTOBER TERM, 1959

No: 682

THE NORWICH PHARMACAL COMPANY,

Petitioner,

—against—

STERLING DRUG, INC.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Petitioner, The Norwich Pharmacal Company, prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Second Circuit entered in the above-entitled case on November 9, 1959.

Opinions Below

The opinion of the District Court for the Northern District of New York (R. 660-70), printed in the

Appendix hereto, *infra*, pp. App. 4-15, is reported at 167 F. Supp. 427.

The opinion of the Court of Appeals for the Second Circuit (R. 676-83), printed in the Appendix hereto, *infra*, pp. App. 16-24, is reported at 271 F. 2d 569.

Jurisdiction

The judgment of the Court of Appeals for the Second Circuit here sought to be reviewed was made and entered on November 9, 1959 (R. 684-85). A copy is appended hereto, printed in the Appendix, *infra*, pp. App. 25-27.

The jurisdiction of this Court is invoked under 28 U. S. C., Section 1254 (1).

Questions Presented

The action is an unfair competition action for an injunction. It is based upon respondent's deliberate and complete product copying of petitioner's liquid pharmaceutical preparation, Pepto-Bismol, in respondent's competitive product, Pepsamar—copying not only of the essential product itself, but also of all of its non-functional features and characteristics by which, through petitioner's long and extensive advertising and sales, the public has come to identify and know petitioner's product.

The action was removed by respondent from the Supreme Court of the State of New York in and for Chenango County to the United States District Court for the Northern District of New York (28 U. S. C., § 1441 (a)). Jurisdiction of the federal

courts is based solely upon diversity of citizenship of the parties (28 U. S. C., § 1332 (a) (1)).

The District Court granted an injunction (R. 660-70 and 673-75). The Court of Appeals for the Second Circuit reversed (R. 676-85).

The questions presented are these:

(1) Whether—in limiting enjoinable unfair competition only to (a) cases of secondary meaning plus likelihood of confusion, or (b) cases of palming off, actual deception, or interference with confidential or contractual relations—the Court of Appeals has not decided important questions of the unfair competition law of New York in conflict with applicable New York law measuring unfair competition by equitable fairness or unfairness and incorporating the cognate doctrine against misappropriation for commercial advantage of some benefit or "property right" equitably belonging to another?

(2) Whether—in deciding this case upon its own precedents and those of other federal courts—and in ignoring the unfair competition law of New York as declared by the New York courts, except to attempt to rationalize it to the federal decisions by contextually-unmeaningful analogies—the Court of Appeals has not ignored or misapplied the principle of substantial uniformity of result within a state that is commanded in diversity-of-citizenship cases by the Rules of Decision Act (28 U. S. C., § 1652) as interpreted by this Court in *Erie R. Co.* v. *Tompkins*, 304 U. S. 64 (1938), and subsequent cases?

(3) Whether—in setting aside the District Court's finding of fact that the opaque pink color of peti-

tioner's Pepto-Bismol and of respondent's Pepsamar is non-functional—and in substituting its own finding to the contrary—the Court of Appeals has not so far departed from the accepted and usual course of judicial proceedings dictated by Rule 52 of the Federal Rules of Civil Procedure as to call for an exercise of this Court's power of supervision?

(4) Whether the decision of the Court of Appeals is not so plainly in error, in law and in principle, as to call for an exercise of this Court's power of supervision, and, upon review by this Court, to call for reversal of the judgment of the Court of Appeals and reinstatement of the judgment of the District Court?

Statute and Federal Rule Involved

The provisions of the Rules of Decision Act, 62 Stat. 944, 28 U. S. C., § 1652, and of Rule 52 of the Federal Rules of Civil Procedure, are printed in the Appendix hereto, *infra*, pp. App. 28-29.

Statement

This action was commenced on February 9, 1956, in the Supreme Court of the State of New York in and for Chenango County. Respondent removed it to the United States District Court for the Northern District of New York on grounds of diversity of citizenship and a subject-matter of more than $3,000 in value exclusive of interest and costs (28 U. S. C., §§ 1332 (a) (1) and 1441 (a)). Petitioner is a New York corporation. Respondent is a Delaware corporation (R. 6 and 22).

The Parties

Petitioner and respondent are competitors in the manufacture and sale of drug and pharmaceutical products (R. 6, 11, 22, and 23). Respondent, with consolidated assets in 1956 of $142,036,600, and 1956 sales of $177,731,471, is more than six times as large as petitioner, in assets, in facilities, and in sales (Pl. Ex. 65 [1956 Annual Report, pp. 17 and 18] and Pl. Ex. 66 [1956 Annual Report, pp. 14 and 16]; see also R. 47-48 and 169-71). Its sales of proprietary medicinal and pharmaceutical products alone put it among the first five in the United States in percentage of that market nationally (R. 170-71).*

Pepto-Bismol

(Petitioner's Leading Product)

Petitioner's leading product is the well-known Pepto-Bismol, a liquid pharmaceutical preparation for the relief of stomach upset, heartburn, nausea, and the like—a proprietary preparation (R. 6-7, 10, 22-23, and 52). Petitioner has been manufacturing and selling it since 1900 or 1901, at first under the name Mixture Cholera Infantum, and, since 1918 or 1919, under the name Pepto-Bismol (R. 42-43, 48, 98, and 103; Pl. Ex. 1, R. 530 and 541).

* "Proprietary" drug or pharmaceutical preparations are those advertised to the public by means of newspapers, magazines, radio, television, and the like, and sold over the counter, in drug stores, supermarkets, and similar outlets (R. 279-80).

"Ethical" drug and pharmaceutical preparations are those prescribed by doctors and not advertised to the public (R. 175, and 279).

The natural color of Pepto-Bismol—without artificial coloring—is a milky white (Pl. Ex. 19, R. 99). But, in all the time since 1900 or 1901, Pepto-Bismol has always had a characteristic opaque pink color (R. 35, 43, 48, and 98). It is artificially produced by adding a minute quantity of an inert certified food color or dye that has no therapeutic or medicinal function or value whatsoever (R. 98-100 and 109-11).

Similarly, Pepto-Bismol's characteristic wintergreen flavor and odor is artificially produced—as it has always been—by adding methyl salicylate synthetic (oil of wintergreen) in quantities insufficient for any therapeutic effect (R. 48, 98, 110-11, 249, 275-76, and 278-79).

Pepto-Bismol has always been sold and offered for sale in clear, colorless glass bottles (R. 43, 49, 102, and 382-83). So that, over the years, as now, the opaque pink color of the Pepto-Bismol inside the bottle has always represented the most arresting feature of its appearance and package as a whole (R. 49).

On the label, the name Pepto-Bismol is split into two lines, with "Pepto" on the top line and "Bismol" on the bottom line (R. 93 and 102).

The label also prominently features the slogan "For Upset Stomach", with the word "Upset" emphasized in enlarged staggered type (R. 8-9, 23, 70, and 384).

Pepto-Bismol Advertising And Promotion

Petitioner has been advertising and promoting Pepto-Bismol to consumers on a national scale ever

since the early 1930's, with steadily increasing intensity and coverage (R. 50; Pl. Ex. 3, R. 59 and 544-46; Pl. Exs. 17a, 17b, and 17c, R. 83-84). Between 1934 and 1955, it spent over $15,800,000 in doing so (R. 60; Pl. Ex. 3, R. 59 and 544-46).

It has used all the media of national advertising: Magazines of national and sectional coverage. Farm magazines. Newspapers across the country. Comics and Sunday Supplements. Network radio and television shows. Radio and television spot announcements. Subway cards and car cards. Point-of-sale advertising and displays. And trade advertising (R. 65-85 and 401-03). It spent over $2,100,000 in *each* of the years 1954 and 1955 for Pepto-Bismol advertising and promotion alone (R. 60; Pl. Ex. 3, R. 59 and 544-46).

In all of this, the pink color has been emphasized as the badge of Pepto-Bismol (R. 67-68 and 401-03). Its magazine advertising has been predominantly in color, at least since 1943 (R. 67, 77-78, and 402). Its advertising in the comics and Sunday Supplements has been entirely in color (R. 70 and 72). Its point-of-sale advertising and display pieces have all been in color (R. 78-79). Its trade advertising has been largely, if not all, in color (R. 74-76 and 403). And—in all of these—a picture of the front face of a bottle of Pepto-Bismol has always been featured, colored as nearly as possible—through half-tone color screening and at considerable extra expense to petitioner (R. 71, 84, and 96)—the actual shade of pink that Pepto-Bismol is (R. 67, 70-72, 79, and 402). In black-and-white advertisements and in radio and television

commercials, the text of the advertisement or commercial has referred to the pink color of Pepto-Bismol (R. 71-73, 81, and 401-02).

To a lesser extent, its wintergreen flavor and odor have been featured, too (R. 85-86).

Petitioner has featured the slogan "For Upset Stomach" on its Pepto-Bismol label since 1942, and in its advertising and promotion for Pepto-Bismol, since some time in the 1930's, with the word "Upset" printed, since 1939 or 1940, in irregular wavy type—to give the sense of upset (R. 50-51, 67, 70, 72-73, 75, 79, 85, 102, and 384).

The Sales Of Pepto-Bismol

Petitioner sells Pepto-Bismol to drug and grocery wholesalers and jobbers and directly to retail drug stores, food stores, and the like (R. 48, 64, and 393-94). It is available for purchase in 99% of all the drug stores in the United States and in the food stores doing between 70% and 80% of the food business of the entire country (R. 64-65 and 84).

During 1955 alone, petitioner sold over 19,900,000 bottles of Pepto-Bismol in the United States (R. 62; Pl. Ex. 5, R. 62 and 548). From 1937 to the end of 1955—just before the commencement of this action—it sold more than 155,500,000 bottles in all (R. 62; Pl. Ex. 5, R. 62 and 548)—more than 6,600,000 gallons of Pepto-Bismol sales (R. 63; Pl. Ex. 6, R. 63 and 549).

In dollars, petitioner's Pepto-Bismol sales in the United States—for 1955 alone—were $7,600,000 (R.

61; Pl. Ex. 4, R. 61 and 547). And, in the twenty years immediately before the commencement of this action—more than $60,000,000 (R. 61; Pl. Ex. 4, R. 61 and 547).

In 1955, petitioner's sales of Pepto-Bismol alone accounted for about 30% of all of petitioner's sales of *all* of its products—both ethical and proprietary. It was petitioner's leading item, both as to volume and as to profit (R. 52).

The extent to which this tremendous sales acceptance of Pepto-Bismol is directly attributable to petitioner's advertising and promotional efforts is dramatically shown by comparing the year-by-year dollar sales volume tabulated in Exhibit 4 (R. 547) with the year-by-year advertising and promotional expense tabulated in Exhibit 3 (R. 544-46).

Respondent's "New" Pepsamar

In early 1953, respondent set out to take over the good will and market and consumer acceptance that petitioner had created for Pepto-Bismol and its product identity.

Respondent's Survey Of The Pepto-Bismol Market

First, respondent conducted a series of surveys of the Pepto-Bismol market (R. 176-78). From outside marketing research sources—the A. C. Nielsen Company and the Joseph Jacobs advertising agency—it dug out Pepto-Bismol's 1952 and 1953 retail sales volume (at consumer prices) and its percentage of increase over earlier years, all broken down by drug-store and by food-store sales (R. 64, 88, 171-72, 185-

90, 223, 283, and 347-49; Pl. Ex. 32, R. 187 and 602-03; Pl. Ex. 33, R. 188 and 604; Pl. Ex. 35, R. 190 and 607). From "some of our friends in the retail and wholesale business"—certain chain drugstores and wholesale druggists—it found out itself "how much they sell" (R. 172 and 349).

That continued from early 1953 through early 1955 (R. 171-72, 176-77, 185-90). Pepto-Bismol was the target—the specific subject of all the reports (R. 172, 176-77; Pl. Ex. 32, R. 187 and 602-03; Pl. Ex. 33; R. 188 and 604; Pl. Ex. 35, R. 190 and 607). No other product's market was similarly surveyed by respondent—only Pepto-Bismol's (R. 177).

Respondent's Probe Into Pepto-Bismol's Sales And Pricing Policies

In March, 1955, respondent prevailed upon a large chain drug outlet to disclose the details of the Pepto-Bismol manufacturer's prices, trade discounts, and display allowances (R. 188-89; Pl. Ex. 34, R. 189 and 605-06). In April, 1955, one of its salesmen—specifically assigned to find out "the sales policies of The Norwich Pharmacal Company with particular reference to Pepto-Bismol"—canvassed the wholesalers and independent retail stores and dug out Pepto-Bismol's prices, methods and channels of sale, trade and cash discounts, "deals", advertising arrangements, display allowances, advance "winter datings", and package quantities—and then "verified" what he had found "through a phone call to The Norwich Pharmacal Company, in which he presented himself as a retail druggist who intended to open a new store" (R. 195-97; Pl. Ex. 38, R. 197 and 610-14).

Respondent's Copying Of Pepto-Bismol In Its "New" Pepsamar

In 1953, right after the first market reports from the Nielsen and Jacobs people, respondent had its research laboratory conduct a full-scale laboratory analysis of Pepto-Bismol (R. 190-91; Pl. Ex. 36, R. 191 and 608). Then, in January or February of 1955, after respondent had decided to capture the Pepto-Bismol market, it deliberately set out to make up a product at its research laboratories as nearly identical to Pepto-Bismol as they could get it—right down to the exact shade of Pepto-Bismol's opaque pink color (R. 172-73, 176-78, 180-81, 283-84, 303, 308-09, and 332).

From that time on, all of respondent's experimental efforts with what was ultimately to become the "new" Pepsamar were pointed exclusively to exactly reproducing Pepto-Bismol—and only Pepto-Bismol. Their goal in so many words, was—"to formulate a product superior to Pepto-Bismol *and still retain the appearance and flavor of the Norwich product*" (R. 200; Pl. Ex. 39, R. 200 and 612). Again respondent's research people subjected Pepto-Bismol to laboratory analysis, and then set out upon their test formulations (R. 309-10). Appearance, color, flavor, viscosity, and *p*H, all, as well as the active ingredients themselves, were varied and revaried until they met the test of identity to Pepto-Bismol (R. 173, 184, 192-93, 199-209, 219-20, 283-84, 308-11, and 332; Pl. Ex. 37, R. 195, and 609; Pl. Ex. 39, R. 200 and 612; Pl. Ex. 40, R. 201 and 613; Pl. Ex. 42, R. 203 and 614; Pl. Ex. 43, R. 205 and 615-16; Pl. Ex. 44, R. 206 and 616; Pl. Ex. 45, R. 207 and 617; Pl. Ex. 46, R. 208 and 618; Pl. Ex. 48, R. 209 and 619).

Pepto-Bismol was the only product that respondent analyzed this way and the sole standard of comparison in all of these experiments (R. 331).

By October, 1955, the formula was substantially the same as Pepto-Bismol's and the active ingredients were identical (R. 13, 24, and 103). The viscosity, stability and *pH* were as close as respondent could get to Pepto-Bismol's (R. 206-08 and 310-11; Pl. Ex. 44, R. 206 and 616; Pl. Ex. 45, R. 207 and 617; Pl. Ex. 46, R. 208 and 618; Pl. Ex. 47, R. 209 and 619). The same wintergreen flavor and odor was there (R. 14 and 25). And—although respondent had never made any tests or surveys as to the color acceptability of any particular colors (R. 180)—an opaque pink color had been added, indistinguishable from Pepto-Bismol's—just as admittedly "it was intended to be" (R. 13, 24-25, 181, and 284).

That is the product that respondent put on the market in the fall of 1955 as "new" Pepsamar, (R. 13-14, 24-25, 180-81, 287-88, and 353).

Respondent's Simulation Of The Pepto-Bismol Name

Respondent originally proposed to call its product *Pepto-Mar* (R. 192-93 and 211-12; Pl. Ex. 37, R. 195 and 609; Pl. Ex. 49, R. 212 and 620). Then *Pepto-Sol* (R. 212-14; Pl. Ex. 51, R. 214 and 624). *Pepto-Easi* was considered (R. 212; Pl. Ex. 50, R. 622). Then *Pepto Plus* (R. 199 and 214; Pl. Ex. 39, R. 200 and 612).

Then, in June, 1955, *Pepsa Mar* was chosen (R. 215; Pl. Ex. 53, R. 628; Pl. Ex. 54, R. 630). At first the name *Pepsa Mar* was to appear on the label on

one line (R. 215-16 and 285-86; Pl. Ex. 53, R. 628; Pl. Ex. 54, R. 630). But, by June 23, 1955, the decision had been reached to distribute it on two lines, with "Pepsa" on the first line and "Mar" on the second—in exactly the same fashion as the name Pepto-Bismol has been distributed on the label of petitioner's Pepto-Bismol since August 26, 1953 (R. 93, 102, 181, 217, and 285-86; Pl. Ex. 55, R. 217 and 632). That is the name and the distribution of that name that appears on the "new" Pepsamar label (R. 286).

(The name "Pepsamar"—written as one word—on a single line—is a registered trademark of respondent's used since 1942 in marketing a liquid aluminum hydroxide preparation as an ethical product in South America and other foreign markets. *That* Pepsamar product was milky-white and peppermint flavored and was sold in blue glass bottles. It was an antacid for the treatment of peptic ulcers, gastritis and hyperacidity. It never resembled Pepto-Bismol or "new" Pepsamar in any way. (R. 11-13, 23-24, 174-76, 215-16, 336.))

"New" Pepsamar's Label Copying

The directions for dosage on the "new" Pepsamar label are substantially the same as the directions for dosage on the Pepto-Bismol label (R. 102-03 and 214-15; Pl. Ex. 20, R. 550). Respondent started out to make them the same (Pl. Ex. 49, R. 212 and 620). Then changed them to make them different (Pl. Ex. 50, R. 622; Pl. Ex. 51, R. 214 and 624). Then changed them back again to the Pepto-Bismol directions (R. 214-15; Pl. Ex. 52, R. 626; Pl. Ex. 53, R. 628).

The indications for use on the "new" Pepsamar label are substantially the same as on the Pepto-Bismol label (R. 102-03; Pl. Ex. 20, R. 550).

The slogan, "For Upset Stomach" is featured on the "new" Pepsamar label, enclosed in a waving pennant to create the same impression as the wavy letters of the word "Upset" on the Pepto-Bismol label (R. 664).

"New" Pepsamar's Advertising

Respondent started advertising and promoting the sale of "new" Pepsamar in test-marketing areas in October, 1955. The advertising features pink: In the color advertising, a pink-colored bottle. In the black-and-white advertising, a reference to "the pleasantly flavored pink liquid." Until after this action was started, the radio and television commercials described "new" Pepsamar as a "gentle pink liquid" both in words and on the television screen. After the start of this action, those references to pink were systematically eliminated (R. 217-18; Pl. Exs. 57a-57f, R. 218 and 635).

At the same time, "For Upset Stomach" has been the dominant theme and more-often-than-not the featured phrase of the "new" Pepsamar advertising, just as in the Pepto-Bismol advertising.

The product is advertised as "*New*" Pepsamar (Pl. Exs. 57a-57f, R. 218 and 635).

"New" Pepsamar's Sales

The first test marketing of "new" Pepsamar began in late October, 1955 (R. 180-81 and 353-54). In those test markets, respondent's target, again, was peti-

tioner's Pepto-Bismol. The "new" Pepsamar is marketed in competition with Pepto-Bismol (R. 288). Respondent conducted store checks on its "new" Pepsamar against Pepto-Bismol in the test-marketing areas and Pepto-Bismol is the only product respondent checked against apart from some other products of its own (R. 181).

The District Court Decision

After a five-day trial, the District Court (Stephen W. Brennan, D.J.) held that respondent was competing unfairly; that its assumption of Pepto-Bismol's product identity in respondent's "new" Pepsamar constituted unfair competition (R. 669).

Taking the decisions of the New York courts as controlling, Judge Brennan held that the test of enjoinable unfair competition, under New York law, is—"whether the acts are fair or unfair, according to principles recognized in equity" (R. 660); that appropriation of that which equitably belongs to a competitor—the doctrine of unfair competition enunciated by this Court in *International News Service* v. *Associated Press*, 248 U. S. 215 (1918)—constitutes unfair competition in New York under that test; that palming off no longer need be shown; that secondary meaning no longer is necessary; and that actual deception need not be shown (R. 668).

Having reviewed the facts, he summarized his findings as follows (R. 667):

> "To summarize, in addition to any argument which is made as to the similarity of the name of the competing products, Sterling [respondent] has appropriated the non-functional color and flavor of the Norwich [petitioner's] product. It

features in its advertising the pink color of its product similar to the advertising of Pepto-Bismol. It uses the slogan 'for upset stomach' prominently upon its label and in its advertising in a manner comparable to that used upon the product and in the advertising of Pepto-Bismol. The name 'Pepsamar' is placed upon the label in a manner similar to that of Pepto-Bismol. It is displayed and advertised as a new remedy for upset stomach although its ingredients, its intended use and the directions for its use are similar to that of Pepto-Bismol." (Matter in brackets added.)

And—he found—all of that was done by respondent deliberately and intentionally, for the purpose of trading upon the dress of Pepto-Bismol (R. 669).

Rejecting respondent's invitation to fragment the misappropriation and "evaluate each non-functional appropriation" piecemeal, Judge Brennan held that (R. 669):

> "Unfair competition is based upon the appropriation of the non-functional attributes as a whole rather than upon the sum of its parts appraised individually."

and that (R. 670):

> "Sterling [respondent] may produce and sell a better or cheaper remedy than Pepto-Bismol, based upon its formula. The common standards of fair dealing prohibit further encroachment." (Matter in brackets added.)

Holding that an injunction should issue, he set as his task 'tailoring the relief "to achieve the nice bal-

ance of adequately redressing the wrong without the imposition of punishment for the exercise of a legitimate business function" (R. 670).

Having found that "the pink color, used by Sterling in its Pepsamar product, is non-functional and was adopted by Sterling as an intentional imitation of the appearance of the Pepto-Bismol product" (R. 666) and that the proof was convincing of Pepto-Bismol's "wide acceptance" and "of the public association of a pink colored stomach remedy with Pepto-Bismol" (R. 667), he understandably addressed the injunction against respondent's "simulating the pink color of Pepto-Bismol in its product, Pepsamar" or using the descriptive pink color in the advertising of its Pepsamar product (R. 670)—not as an adjudication of any abstract exclusive property in petitioner in that color for a stomach medicine, but as the most assuredly adequate and effective relief against *this* respondent's demonstrated unfair competition.

At the same time, to confine the injunction to its proper function of prohibiting only the wrongful use of the pink color as a marketing device to perpetuate the unfair competition, and in order to safeguard to respondent any real or fancied advantages or benefits it might gain from any legitimate use of the pink color, Judge Brennan directed that the injunction permit respondent, if it chose, to continue to use the pink color for its Pepsamar when sold in the blue glass bottles that it uses and prefers for so many of its other products—including an opaque-pink-colored liquid stomach remedy—or when sold in any other colored container concealing the pink color of its contents (R. 670; R. 475-76, 218-19, and 333-35).

The judgment of the District Court so provided (R. 673-75).

The Court Of Appeals Decision

The Court of Appeals reversed (R. 676-85). More important, it rejected the entire approach of the District Court. While ostensibly acknowledging that New York law governed (R. 678), it actually decided this case—not by application of New York law at all—but by application of an independent body of unfair competition law that the federal courts in the Second Circuit have been independently building up in their own decisions over the years. At every decisive point in its opinion, the Court of Appeals relied on one of its own decisions as authority, or on a decision of another federal court in the Second Circuit.

The ultimate outcome, the Court of Appeals decided this case on the general unfair competition philosophy of Judge Frank (concurring) in its own decision in *Standard Brands, Inc.* v. *Smidler*, 151 F. 2d 34, 37 (C. C. A. 2d Cir. 1945) (R. 678), and on the rigid "secondary meaning" doctrine of its own decision in *Crescent Tool Co.* v. *Kilborn & Bishop Co.*, 247 Fed. 299, decided in 1917 under the "general law" approach of that day (R. 683; also R. 679), and the dependent "free ride" doctrine of its own decision in *Charles D. Briddell, Inc.* v. *Alglobe Trading Corp.*, 194 F. 2d 415 (C. A. 2d Cir. 1952) (R. 680).

The vastly broader and more adaptable New York law of unfair competition declared and applied by the New York courts was totally ignored by the Court of Appeals except for a single paragraph attempting to rationalize the New York decisions cited by Judge Brennan with the Second Circuit's own federal law

of unfair competition, by denying the force of what the New York courts themselves announced they were deciding, in favor of what the federal courts in the Second Circuit would have decided in the same circumstances (R. 679).

On that basis, it held that enjoinable unfair competition is restricted to (a) cases of secondary meaning of non-functional attributes, combined with a showing of likelihood of confusion, or (b) cases of palming off, actual deception, or interference with confidential or contractual relations (the outer limits it places on the concept of misappropriation of another's property). And that, absent a case fitting into one of those categories—"a 'free ride' is permitted." (R. 678-80.)

Hence, disregarding the plainly-stated basis of Judge Brennan's decision below—that unfair competition here is based upon the intentional misappropriation of Pepto-Bismol's attributes as a whole rather than upon the sum of its parts taken together (R. 669) —the Court of Appeals accepted respondent's piecemeal defenses of its appropriation of the various Pepto-Bismol attributes that were not covered by the injunction (R. 683)—and treated this case as though all that was involved was respondent's intentional appropriation of Pepto-Bismol's opaque pink color, isolated from everything else respondent did to appropriate the Pepto-Bismol product-identity as a whole (R. 678, 681, and 683).

It set aside Judge Brennan's findings that the opaque pink color was non-functional (R. 681-82) and that the color had achieved secondary meaning associated with Pepto-Bismol in the stomach remedy field (R. 682-83). And then held that no evidence had been

shown of an attempt or intent to pass off Pepsamar as Pepto-Bismol or to divert petitioner's customers by means of deception (R. 680); that customer confusion had not been shown (R. 680); and that none of petitioner's property rights had been violated, because color may not become "someone's exclusive property as a perpetual monopoly in connection with a specific product" nor marketing skills be cornered (R. 680-81 and 683).

Reasons for Granting the Writ

I

The Court of Appeals has decided an important question of the New York law of unfair competition in conflict with the applicable New York law. The question in this case was not whether petitioner has any exclusive right to the opaque pink color of its Pepto-Bismol, standing alone, nor whether respondent's selection of that selfsame color for its "new" Pepsmar, standing alone, was unfair competition. The question in this case was whether respondent was free to take over in its "new" Pepsmar the entire bundle of attributes and characteristics that together make up petitioner's product Pepto-Bismol and give Pepto-Bismol its product identity in the public mind—all of its non-functional features like color, flavor, general appearance, name, and marketing slogan, along with the functional pharmaceutical ingredients that make up the essential product itself—and to do so deliberately, by calculated imitation, so as to take over the market, good will and consumer acceptance that petitioner has created for its product Pepto-Bismol over the past almost 60 years through

petitioner's efforts, skill, and enormous expenditures. Or whether that constituted unfair competition.

In deciding that question, the Court of Appeals was not free to apply its own standards of unfair competition, as it in fact did. The Rules of Decision Act (62 Stat. 944, 28 U. S. C., §1652), as interpreted by this Court, required it to apply the New York law of unfair competition as enunciated by the New York courts, since the case came to the Court of Appeals from the District Court for the Northern District of New York as a diversity-of-citizenship case.

The Rules of Decision Act requires that:

> "The laws of the several states, except where the Constitution or treaties of the United States or Acts of Congress otherwise require or provide, shall be regarded as rules of decision in civil actions in the courts of the United States, in cases where they apply."

This Court has repeatedly held that the goal of the Act is substantial uniformity of result within a state, whether the action be brought in the federal court under diversity-of-citizenship jurisdiction or in the state court a block away. In effect—this Court has said—where diversity of citizenship is the basis of jurisdiction, the federal court is, for that purpose, only another court of the state in which it is sitting, and, as such, is required by the Rules of Decision Act to follow the law and policy of that state, whether expressed in statutes of the state or in the decisions of its courts. *Erie R. Co.* v. *Tompkins*, 304 U. S. 64 (1938); *Guaranty Trust Co.* v. *York*, 326 U. S. 99 (1945); *Bernhardt* v. *Polygraphic Company of America*, 350 U. S. 198 (1956).

In *Pechour Lozenge Co. v. National Candy Co.*, 315 U. S. 666 (1942), this Court expressly applied that requirement to the determination of unfair competition cases.

When the highest state court has not ruled upon the precise question before the federal court in a diversity-of-citizenship case, this Court has held that the federal court is obliged to give effect to authoritative and well-considered decisions of the lower state courts. *West* v. *American Tel. and Tel. Co.*, 311 U. S. 223 (1940); *Six Companies of California* v. *Joint Highway Dist. No. 13*, 311 U. S. 180 (1940); *Fidelity Union Trust Co.* v. *Field*, 311 U. S. 169 (1940); *Russell* v. *Todd*, 309 U. S. 280 (1939).

And in *Meredith* v. *Winter Haven*, 320 U. S. 228 (1943), this Court held that, when there are no authoritative decisions by state courts on the subject at all, the federal courts still must determine and apply state law in diversity-of-citizenship cases, using whatever materials are at hand for determining what that state law is.

In the words of this Court in *West* v. *American Tel. and Tel. Co.* (311 U. S. 237):

> "State law is to be applied in the federal as well as the state courts and it is the duty of the former in every case to ascertain from all the available data what the state law is and apply it rather than to prescribe a different rule, however superior it may appear from the viewpoint of 'general law' * * *."

Certainly that duty is not discharged simply by footnoting an assumption that state law applies, as

the Court of Appeals did here (R. 678), and then deciding the case under principles of unfair competition independently developed by the federal courts within the Second Circuit. Nor by the court's passing attempts to reconcile the New York decisions to those *federal* decisions by factually-incidental distinguishment (R. 679).

The basic fault was the point of departure the Court of Appeals chose. A state court in New York would have started with the decisions of the *state* courts and determined from them what the unfair competition law of New York is, and only then turned to the decisions of the federal courts for such assistance as they might provide, just as the District Court did below. That is what the Rules of Decision Act required, as this Court has interpreted and applied that statute. By reversing the process, the Court of Appeals has so ignored or misapplied the principle of substantial uniformity of result within a state as to call for review by this Court.

II

Had the Court of Appeals complied with the requirements of the Rules of Decision Act and taken the decisions of the New York courts as its starting point, it could not have reached the decision it did.

Using the *federal* decisions, the Court of Appeals held that the law of unfair competition to be applied to this case is limited to (a) cases of secondary meaning attached to copied non-functional attributes, plus likelihood of confusion, or (b) cases of palming off, actual deception, or interference with confidential or contractual relations (R. 678-80 and 680 fn. 6).

In contrast, the New York courts hold that, under New York law, there is no complete list of the activities that constitute unfair competition. Secondary meaning and palming off need not be shown. Actual confusion or deception need not be shown. The crucial question in each case is whether the acts of the defendant are "fair or unfair, according to the principles recognized in equity, and not by 'The morals of the market place'." *Santa's Workshop v. Sterling*, 282 App. Div. 328, 329-30 (3d Dep't 1953); *Aron Periodicals v. Ziff-Davis Pub. Co.*, 282 App. Div. 200, 201 (1st Dep't 1953), mod'g 113 N. Y. S. 2d 737 (Sup. Ct. N. Y. Co. 1952); *Metropolitan Opera v. Wagner-Nichols R. Corp.*, 199 Misc. 786 (Sup. Ct. N. Y. Co., 1950), aff'd 279 App. Div. 632 (1st Dep't 1951); *Good Humor Corporation v. Fomia*, 6 Misc. 2d 758 (Sup. Ct. Queens Co. 1957); *Oneida, Ltd., v. National Silver Co.*, 25 N. Y. S. 2d 271, 276 (Sup. Ct. Madison Co. 1940); *American Chain Co., Inc. v. Carr Chain Works, Inc.*, 141 Misc. 303 (Sup. Ct. N. Y. Co. 1931).

In so many words, in *Santa's Workshop v. Sterling*, *supra* (282 App. Div. 329-30):

> "The law of unfair competition no longer requires that plaintiff's business and advertising shall have acquired a 'secondary meaning.' (*International News Service v. Associated Press*, 248 U. S. 215, 235, 237; *Hanover Milling Co. v. Metcalf*, 240 U. S. 403.) 'The controlling question in all cases where the equity power of the courts is invoked is whether the acts are fair or unfair, according to principles recognized in equity.' (*Oneida, Ltd., v. National Silver Co.*, 25 N. Y. S. 2d 271, 276. See, also, *Aron Periodicals v. Ziff-Davis Pub. Co.*, 113 N. Y. S. 2d 737, aff'd 282 App. Div. 200.)"

Consistent with that approach, the New York courts have increasingly embraced and applied the doctrine of unfair competition enunciated by this Court in *International News Service* v. *Associated Press*, 248 U. S. 215 (1918), forbidding the misappropriation for the commercial advantage of one person of a benefit or "property right" created by another. *Fisher* v. *Star Co.*, 231 N. Y. 414 (1924); *Dior* v. *Milton*, 9 Misc. 2d 425 (Sup. Ct. N. Y. Co. 1956), aff'd 2 App. Div. 2d 878 (1st Dep't 1956); *Metropolitan Opera* v. *Wagner-Nichols R. Corp.*, 199 Misc. 786 (Sup. Ct. N. Y. Co. 1950), aff'd 279 App. Div. 632 (1st Dep't 1951); *Harvey Machine Co.* v. *Harvey Aluminum Corp.*, 9 Misc. 2d 1078 (Sup. Ct. N. Y. Co. 1957); cf. *Good Humor Corporation* v. *Ewing*, 6 Misc. 2d 758 (Sup. Ct. Queens Co. 1957).

As stated by the New York Supreme Court in *Metropolitan Opera* v. *Wagner-Nichols R. Corp.*, *supra* (199 Misc. 796):

> "The modern view as to the law of unfair competition does not rest solely on the ground of direct competitive injury, but on the broader principle that property rights of commercial value are to be and will be protected from any form of unfair invasion or infringement and from any form of commercial immorality, and a court of equity will penetrate and restrain every guise resorted to by the wrong doer."

In determining what are "property rights" to be protected, the question is not so much the rights of either party as against the public generally the "exclusive property" and "perpetual monopoly" of the Court of Appeals opinion below (R. 681 and 683)

but their rights as between themselves. *Metropolitan Opera v. Wagner-Nichols R. Corp.*, 199 Misc. 786 (Sup. Ct. N. Y. Co. 1950), aff'd 279 App. Div. 632 (1st Dep't 1951); *Harvey Machine Co. v. Harvey Aluminum Corp.*, 9 Misc. 2d 1078 (Sup. Ct. N. Y. Co. 1957); *Good Humor Corporation v. Ecmia*, 6 Misc. 2d 758 (Sup. Ct. Queens Co. 1957); cf. *American Chain Co., Inc. v. Carr Chain Works, Inc.*, 141 Misc. 303 (Sup. Ct. N. Y. Co. 1931); also *International News Service v. Associated Press*, 248 U. S. 215, 234-40 (1918).

In *Electrolux Corp. v. Val-Worth, Inc.*, 6 N. Y. 2d 556 (1959), the New York Court of Appeals has expressly approved this adoption of the *International News Service* doctrine, observing that (p. 567):

> "The principle that one may not misappropriate the results of the skill, expenditures and labors of a competitor has * * * often been implemented in our courts."

Applying these standards of unfair competition in *Santa's Workshop v. Sterling*, 2 App. Div. 2d 262 (3d Dep't 1956), aff'd 3 N. Y. 2d 757 (1957), where one businessman had set up and begun the advertising, promotion and successful operation of a tourist attraction built around the Santa Claus theme, and another nearby tourist-attraction operator had then converted his places of business to the Santa Claus theme "immediately after the successful inception of plaintiff's business" (p. 263), the New York courts enjoined the second businessman's use of the Santa Claus idea. The Appellate Division explained (2 App. Div. 2d 264):

> "No one owns Santa Claus. The legend and the symbol have a solid place in the public domain. But where one business man has developed

a special use of a word or symbol that has been open to anyone to use, a competitor may not unfairly appropriate the same concept to sow confusion from which he reaps a profit."

More recently, in *Pharmaceuticals, Inc.* v. *United Wholan Corp.*, 123 U. S. P. Q. 565 (Sup. Ct. N. Y. Co. 1959), the New York Supreme Court ordered an injunction in very nearly the same circumstances as this case presents. The court found that (p. 566):

"Defendant's pill is a two-tone blue and white tablet identical in all respects with the plaintiff's product, except that recently the plaintiff's pill has been stamped with an 'S.' The shape of the bottles and the colors used on the labels are virtually the same. The make-up and material printed on the labels are quite similar and in many instances identical. It is quite clear from the evidence that the defendant has incorporated in its product practically every feature which the public would be likely to recognize in the plaintiff's product."

It pointed out that (p. 566):

"The trend of the law, both statutory and decisional, has been to extend the scope of the doctrine of unfair competition, whose basic principle is that commercial unfairness should be restrained whenever it appears that there has been a misappropriation, for the advantage of one person, of a property right belonging to another."

It held that (p. 567):

"The plaintiff is clearly entitled to relief in

view of what appears to be the deliberate copying by the defendants of the salient features of the plaintiff's product 'Sominex,' for the purpose of obtaining for its product the benefits of the advertising and the public demand for 'Sominex.'"

The decision of the Court of Appeals below in this case, brings out into the open the conflict that has been going on between the unfair competition law enforced in the federal courts in the Second Circuit and the unfair competition law as enforced in the courts of the State of New York. The central conflict is this: The Court of Appeals for the Second Circuit, more than any other court in the nation, has steadfastly refused to accept this Court's decision in *International News Service* v. *Associated Press* as standing for anything more than "that a western newspaper might not take advantage of the fact that it was published some hours later than papers in the east, to copy the news which plaintiff had collected at its own expense." *R. C. A. Mfg. Co.* v. *Whiteman*, 114 F. 2d 86, 90 (C. C. A. 2d Cir. 1940); *Cheney Bros.* v. *Doris Silk Corporation*, 35 F. 2d 279 (C. C. A. 2d Cir. 1929); *G. Ricordi & Co.* v. *Haendler*, 194 F. 2d 914 (C. A. 2d Cir. 1952); cf. *Continental Casualty Company* v. *Beardsley*, 151 F. Supp. 28, 42-45 (C. S. D. C. S. D. N. Y. 1957), mod. 253 F. 2d 702 (C. A. 2d Cir. 1958). The courts of New York, on the other hand, have made its doctrine an important and expanding part of the New York law of unfair competition. The Court of Appeals for the Second Circuit is basically hostile to any departure from the rigidities of its own decision in *Crescent Tool Co.* v. *Kilborn & Bishop Co.*, 247 Fed. 299 (C. C. A. 2d Cir. 1917). The New York courts have, long since, put aside the

Crescent Tool rule as the exclusive measure of unfair competition in New York.

Now that this conflict has been brought out into the open by the refusal of the Court of Appeals below to conform its decision in this diversity-of-citizenship case to the unfair competition law of New York, as required by the Rules of Decision Act, we submit that the time has come for this Court to take a hand. If substantial uniformity of result within a state in diversity-of-citizenship cases is to have any meaning in the State of New York, where unfair competition is concerned, the Court of Appeals for the Second Circuit will have to give up its practice of ignoring the New York law of unfair competition, in favor of its own self-developed unfair competition law, and accede to the views of the New York courts. Only this Court can bring about that result.

III

To buttress its decision below, the Court of Appeals rejected the District Court's finding that the pink color used by respondent in its "new" Pepsamar product is non-functional (R. 681; see R. 666).

It did not question or disturb the District Court's finding that "the pink color and the ingredient producing same have no healing value in themselves" (R. 666), but pointed to the finding that the pink color "is designed to present a pleasing appearance to the customer and to the sufferer" (R. 681; see R. 666), and to the District Court's observation that "It is readily understood that a disordered stomach will accept that

which is pleasing and reject that which is repulsive (R. 681; see R. 666).

It reasoned that "finding of functional value might well be made because a rejected stomach medicine scarcely has a fair opportunity to fulfill its function" (R. 681-82).

The fallacy must be obvious: What the Court of Appeals has done is to equate *all* agreeable color capable of presenting a pleasing appearance to the customer and to the sufferer—to opaque pink alone.

But, at the trial, four separate witnesses testified concerning that subject (R. 255-56, 260-62, 268, 275, 277-79, and 340). The one thing they all agreed on was that color is entirely a matter of personal preference of each separate individual (R. 261-62, 268, 278, and 340). And the only witness who was a color expert specifically testified that there are a variety of colors other than opaque pink of equal acceptability for pharmaceutical preparations of this kind. Soft yellow, a peachy color, a mint type of green, and an aquamarine type of blue, to name a few (R. 340; see R. 275).

Little wonder, then, that the District Court also found that "Pleasing appearance and acceptance is a matter of individual preference" (R. 666), and observed that "Common knowledge of prominent stomach distress remedies contradict the fact that the pink color of the competing products [Pepto-Bismol and 'new' Pepsamar] is other than a preferred dress of the products involved [Pepto-Bismol and 'new' Pepsamar]" (R. 666).

In those circumstances, the rejection by the Court of Appeals of the District Court's finding that the pink color is non-functional, and its suggestion that a finding of functional value might be made, flies in the face of Rule 52 of the Federal Rules of Civil Procedure and its command that the District Court's findings of fact shall not be set aside unless "clearly erroneous" and that "due regard shall be given to the opportunity of the trial court to judge of the credibility of the witnesses." It is such a departure from the accepted and usual course of judicial proceedings as to call for an exercise of this Court's power of supervision.

Conclusion

Even the Court of Appeals itself acknowledged that "by 1955 plaintiff's product [Pepto-Bismol] was nationally recognized and was undoubtedly the leader in the field of stomach assuagement" (R. 677). The effect of its decision below, however, is to take away from petitioner the fruits of the years of effort and millions of dollars of expense that petitioner has put into its Pepto-Bismol product and product-identification, by which that outstanding position was achieved. For the reasons stated above, this petition for a writ of certiorari should be granted.

February 4, 1960

Respectfully submitted,

LEWIS C. RYAN
Counsel for Petitioner

Memorandum–Decision of District Court

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF NEW YORK

Civil No. 6010

THE NORWICH PHARMACAL CO.,

Plaintiff,

—against—

STERLING DRUG, INC.,

Defendant.

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ACTION TO ENJOIN UNFAIR COMPETITION

Tried Jan. 20-24, 1958; Submitted Apr. 4, 1958; Decided Aug. 1, 1958.

MEMORANDUM-DECISION

BRENNAN, *Judge*.

The overlapping of the requirements of free competition and ethical business practices is the problem involved in this litigation.

The action, originally brought in the state court, seeks an injunction and money damages based upon the allegations that the defendant is competing unfairly in the imitation, manufacture and distribution of its product, Pepsamar, which is sold in competition with the plaintiff's product, Pepto-Bismol.

Memorandum–Decision of District Court

Upon the trial, the claim for damages was waived and the problem is reduced to a determination as to whether or not injunctive relief is warranted.

Jurisdiction of this court is based upon diversity of citizenship. The New York law of unfair competition applies (*Maternally Yours* v. *Your Maternity Shop*, 234 F. 2d 538. Note 1 page 540) which is expressed by the following quotation taken from *Santa's Workshop* v. *Sterling*, 282 A. D. 328 at 329-330. "... 'The controlling question in all cases where the equity power of the courts is invoked is whether the acts are fair or unfair, according to principles recognized in equity' (Oneida, Ltd. v. National Silver Co., 25 N. Y. S. 2d 271, 276. See, also, Avon Periodicals v. Ziff-Davis Pub. Co., 113 N. Y. S. 2d 737, affd. 282 App. Div. 200)". The above decision is cited in our own Circuit Court of Appeals in *Noma Lights* v. *Lawn Spray Co.*, 222 F. 2d 716 at 717. Concisely stated, the existence of unfair competition is a question to be decided upon the particular facts of each case with an appreciation of the necessity for free competition within the limits of ethical business practices. A thorough appraisal of the facts is therefore necessary.

The Norwich Pharmacal Company, hereinafter referred to as "Norwich", is a New York corporation, having its principal place of business at Norwich, New York. It has been engaged in the business of manufacturing drug and pharmacal products since about 1885. It was incorporated in 1890. It has conducted a successful and growing business over the intervening period of years. The total money value of the sales of all of its products amounted to about $33,-

600,000. in 1957. Its product, involved in this litigation, is known as "Pepto-Bismol".

Defendant, Sterling Drug, Inc., hereinafter referred to as "Sterling", is a Delaware corporation with its principal place of business in New York City and is authorized to do business within the State of New York. It has likewise been in the business of manufacturing and selling drug and pharmaceal products for a number of years. That it has enjoyed a progressive growth is apparent from the fact that its total sales for the year 1956 were about $177,700,000. and that it operates through some 20 to 40 subsidiaries. Its product, involved in this litigation, is known as "Pepsamar".

The Norwich product, Pepto-Bismol, is a liquid pharmaceutical preparation intended primarily for the relief of temporary stomach distress. It has been producing and selling this product continuously since about 1900 and the name "Pepto-Bismol" was applied thereto and used continuously since early 1919. The active ingredients of the product appear upon the label of each bottle and have not at any time been essentially changed. Pepsin was eliminated as an ingredient some years ago when it was found to have no therapeutic value. Improvements in the matter of obtaining a more stable liquid were made over a period of years, but the product has undergone no essential change since the time it was first placed on the market. A feature much discussed in the evidence and in the briefs is that Pepto-Bismol has always been marketed as a liquid, opaque pink in color. This color is artificial and is obtained by the addition of a minute quantity of food coloring. It is apparent

that the color or the ingredient producing same has no therapeutic or medicinal value in itself. The product is flavored with a wintergreen flavor. The ingredient producing same was at one time referred to as an active ingredient in the preparation but has been eliminated therefrom since it also has no therapeutic value. As a result of efforts over a period of time, Norwich succeeded about 1950 in so perfecting the manufacture of Pepto-Bismol as to attain a practically stable suspension therein—that is, the insoluble ingredients would not separate, dropping to the bottom of the container and leaving a clear liquid at the top.

Pepto-Bismol is marketed in a clear colorless glass bottle, triangular in shape. The name "Norwich" is molded into the glass on each of its three sides, near the top. This form of container has been used since about 1925. Attached to the bottle is a wraparound label with a yellow background. The face or front of the label contains the words "Pepto-Bismol" in large red letters, the word "Pepto" appearing as an upper line and the word "Bismol" appearing just below. The name, as described above, occupies about one-half of that portion of the label intended for customer view. Immediately beneath the name are the words "For Upset Stomach", the word "Upset" being emphasized by its size and the irregular position of the letters composing same. On another side of the label is contained the directions for the use of the product and a statement of its active ingredients. The third side recites in ordinary print the purpose or symptoms for which the product is to be used. The bottle itself is designed for and contains eight fluid ounces of the product.

Memorandum—Decision of District Court

Pepto-Bismol has been advertised on a national scale for over twenty-five years. Magazines of national and sectional circulation, newspapers, radio and television have been used. Display cards and even comic strips have been also used intermittently. It is fair to say that in the advertising, above mentioned, the pink color of the Pepto-Bismol, has been emphasized. Such advertising efforts have been intensified over a period of years so that more than $2,000,000. were expended in advertising and promotion of the Pepto-Bismol product in each of the years 1954 and 1955. The product has enjoyed a constantly increasing volume of sales. In 1955, the sales of Pepto-Bismol amounted to about $7,000,000. which represents about 30% of the total of Norwich's sales for that year. Norwich has achieved a wide distribution of its Pepto-Bismol product. It is available for customer purchase in about 99% of the drug stores in the United States. In addition, it is distributed in increasing volume in stores and shopping centers where proprietary medicines are displayed for consumer purchase. To summarize, Pepto-Bismol is a nationally known product, enjoying a favorable public reception.

Sterling's product, "Pepsamar", is practically a carbon copy of Pepto-Bismol insofar as its ingredients, color and its intended functions are concerned. It was first manufactured in a limited amount for the purpose of an area marketing test in October 1955. Shortly thereafter, it was placed upon the market in direct competition with Pepto-Bismol. The product was the result of investigation and experimentation commencing in 1953. After an investigation into the

sales practices of Norwich and the sales records of Pepto-Bismol and an analysis of the product itself, the laboratory department of Sterling was instructed by its president to manufacture a product "as near as possible to Pepto-Bismol". This included the copying of the pink Pepto-Bismol color as closely as possible. Although a considerable amount of evidence was taken as to the identity of the two products, it need not be labored here since Sterling admits, in its brief, "as to the product itself, the stuff inside the bottle," Sterling has frankly admitted that its product was intended to be very similar to Pepto-Bismol, just as close as the laboratory could make it."

Sterling's new product was finally given the name "Pepsamar". This name had been used by Sterling in the marketing of a product apparently also designed for the relief of stomach distress and marketed only in South America or foreign markets. It is entirely a different product from the Pepsomar involved in this litigation. It is known as an ethical product, dispensed by physicians and not sold over the counter to the public. The old Pepsamar does not resemble in appearance or composition the Norwich product Pepto-Bismol.

New Pepsamar is marketed in a clear, flat glass bottle with labels on the front and back. Upon the front label, which is composed of a white and blue background, the word "Pepsa" appears in large blue letters upon the upper line and the word "mar" immediately beneath. These two lines occupy over one-half of the front label. Immediately below are the words "For Upset Stomach" on a sort of waving pennant background. The back label contains the

directions for the use of the product, the ingredients thereof and the symptoms or conditions which are appropriate for its use.

Sales promotion of the new Pepsamar and the advertising thereof commenced in about October 1955. Radio, television, newspaper and display pieces were the advertising media principally used. In color advertising, the pink colored bottle is featured and in black and white advertising, the product is referred to as a pink liquid. Up until 1956, the description of Pepsamar as a gentle pink liquid was used in both radio and television advertising. This reference was eliminated after the commencement of this action. The phrase "for upset stomach" has also been used in Pepsamar advertising, substantially in the same manner as in the Pepto-Bismol advertising. Sales of the new Pepsamar, like Pepto-Bismol, are made through drug stores and food stores. It is generally offered in either four or eight ounce bottles. Up to the time of the trial, the sales of new Pepsamar amounted to about $900,000, with about one-half of those sales in the State of Ohio. The Sterling Company has spent about $512,000, in advertising and sales promotion of its new product.

The contention of Norwich here is not directed to the copying of the formula for its product, Pepto-Bismol, but that it contends that Sterling has so imitated same in its nonfunctional attributes and advertised and marketed its new Pepsamar in such a manner as to confuse the buying public, to destroy Norwich's property rights to a degree which would be considered unfair in the light of ethical practices required of business competitors. Its contention is

based principally upon the almost exact imitation of the color of Pepto-Bismol, the imitation of the emphasis upon the pink color which has been stressed in Pepto-Bismol advertising and is likewise stressed in Pepsamar advertising, the emphasis upon the words "upset stomach" upon the Pepsamar label and in advertising, similar to the label and advertising previously used over a long period of time by Pepto-Bismol and the splitting of the name Pepsamar into two parts upon the label, similar to such an arrangement of the label of Pepto-Bismol.

Sterling admits imitation of the product but denies unfairness in the sale or distribution thereof. It contends that no one has a monopoly upon the pink color that has long been used in remedies designed for the alleviatiton of stomach distress and that it has a therapeutic value in the sense that it is attractive and soothing to those suffering therefrom. Sterling contends that the words "upset stomach" have also been used extensively over a period of years in the description and advertising of stomach distress remedies. It contends that the splitting of the word Pepsamar into two parts was occasioned for the same reason that Pepto-Bismol was placed in two lines by Norwich about 1900; to wit: to make same more legible to customers who must view the product across a counter or at some little distance.

The resolution of the above contentions must depend upon the determination as to whether the appropriation by Sterling of the non-functional attributes of Pepto-Bismol and the similarities in advertising, in marketing the two competing products are such as to trespass upon Norwich's property rights and likewise to result in confusion to the buying pub-

lie. Any approach to such determination involves a resolution of the dispute as to whether or not the use of pink color in either of the competing products is functional.

It is not disputed that the pink color and the ingredient producing same have no healing value in themselves. It is designed to present a pleasing appearance to the customer and to the sufferer. It is readily understood that a disordered stomach will accept that which is pleasing and reject that which is repulsive. It is designated to aid in public acceptance. Sterling claims it has a soothing effect upon those suffering from nervous stomach disorders. The court is constrained to find that the pink color has no functional value as the word is commonly used and understood. Pleasing appearance and acceptance is a matter of individual preference. Common knowledge of prominent stomach distress remedies contradict the fact that the pink color of the competing products is other than a preferred dress of the products involved. The action of Sterling in its use of the pink color is confirmatory of the fact that its object was to imitate Pepto-Bismol rather than to improve its formula. Sterling made no tests of color acceptance. It apparently chose the same shade of pink color found in Pepto-Bismol as being the ultimate in therapeutic value if its argument is to be adopted. It is indeed peculiar that the particular shade of pink found in Pepto-Bismol is a necessary requirement of free competition where other shades and other colors are apparently rejected without reason appearing in the evidence. The finding here is that the pink color used by Sterling in its Pepsamar

product, is non-functional and was adopted by Sterling as an intentional imitation of the appearance of the Pepto-Bismol product. Such finding might rest alone upon the testimony of the Chairman of the Board of Directors of Sterling as indicated by the following question and answer.

> "Q. Who made the decision with respect to the color of this product? A. Dr. Taintor, I guess, although on my instructions that it should be similar to Pepto-Bismol. He would obviously come up with a pink color."

To summarize; in addition to any argument which is made as to the similarity of the name of the competing products, Sterling has appropriated the non-functional color and flavor of the Norwich product. It features in its advertising the pink color of its product similar to the advertising of Pepto-Bismol. It uses the slogan "for upset stomach" prominently upon its label and in its advertising in a manner comparable to that used upon the product and in the advertising of Pepto-Bismol. The name "Pepsamar" is placed upon the label in a manner similar to that of Pepto-Bismol. It is displayed and advertised as a new remedy for upset stomach although its ingredients, its intended use and the directions for its use are similar to that of Pepto Bismol. Is such conduct unfair is the ultimate question here. Before reaching that question, a word should be said relative to the prior use of the pink color. Such use has already been referred to in the advertising of Pepto-Bismol and it is readily understood that such color is associated with that particular product. The evidence discloses

convincing proof of its wide acceptance and of the public association of a pink colored stomach remedy with Pepto-Bismol. It is no answer to say that other manufacturers had used the same color in the marketing of proprietary medicine intended for similar use. That others have trespassed does not relieve Sterling. The actions of others may not amount to noticeable damage to the plaintiff. The extent of the threat is the measure of Norwich's requirement to protect its product. In addition, it is not the color alone upon which Norwich relies for injunctive relief. Rather it is the intentional misappropriation of the non-functional attributes which help to make up the identity of its product. It is true that the pink color belongs in the public domain but it may not be used by a competitor in such a way as to act as a means of persuasion that it represents the product of another. The same argument was used in *Santa's Workshop* v. *Sterling*, 2 A. D. 2d 262, aff'd. 3 N. Y. 2d 757, where the court rejected the contention that the words "St. Nick" and the portrayals of Santa Claus, although in the public domain, may be used to confuse or misrepresent.

While the ultimate decision is essentially factual, it must rest upon the individual conception of fairness among commercial competitors according to the standard recognized by the trier of the facts. Such decision however must be guided and limited by legal precedents, and it may be added that the court sees no essential difference in principle between state and federal decisions.

"The concept of unfair competition is no longer limited to the "palming off" of one's product as that of

another but is equally applicable to situations where there is an appropriation of that which equitably belongs to a competitor. The case of *International News Service* v. *Associated Press*, 248 U. S. 215 is most frequently cited as an authority but the principle is recognized by a long line of both state and federal decisions. The origin and evolution of the law of unfair competition is discussed at some length in *Metropolitan Opera* v. *Wagner-Nichols R. Corp.*, 199 Misc. 786, aff'd. 279 A. D. 632 and substantially repeated in *Dior* v. *Milton*, 9 Misc. 2d 425, aff'd. 2 A. D. 2d 878.

That the product involved has acquired a secondary meaning is no longer required as a basis for an action in unfair competition under the state law. (*Santa's Workshop* v. *Sterling*, 282 A. D. 328; *Avon Periodicals* v. *Ziff-Davis Pub. Co.*, 282 A. D. 200). Such a holding by the New York courts seems to have been anticipated by our own Circuit Court of Appeals (*Artype Inc.* v. *Zappalla*, 228 F. 2d 695 at 698).

Actual deception need not necessarily be shown. The likelihood of confusion is sufficient upon which relief may be based. (*American Chain Co.* v. *Carr Chain Works, Inc.*, 141 Misc. 303 at 306; *Rousson Art Works* v. *Gibson Lighter Co.*, 3 A. D. 2d 227 at 231; *Mark Realty Corp.* v. *Hirsch*, 180 A. D. 549. See also *American Chicle Co.* v. *Topps Chewing Gum*, 208 F. 2d 560 and *N. Y. Gen. Business Law*, Sec. 368-c.3).

Where one party has intentionally copied the non-functional attributes of another's product, he must assume the burden of showing that no likelihood of confusion will arise. This is especially true where as here the copying of such attributes was deliberate and intentional, even to the point where Sterling's president

expressed the desire to use the triangular bottle of the Pepto-Bismol product in the following words—"We wish we could use your triangular bottle but we can't". (*Mastercrafters Clock & Radio Co. v. Vacheron etc.*, 221 F. 2d 464 at 467; *My-T Fine Corp. v. Samuels*, 69 F. 2d 76 at 77.

Applying the above rules, we inevitably come to the finding that Sterling is competing unfairly. Its admitted intention is to simulate Pepto-Bismol as nearly as the law would allow. Free competition, so necessary in our economic life (*Charles D. Briddell Inc. v. Atglobe Trading Corp.*, 194 F. 2d 416) does not countenance the assumption of a competitor's identity. Pepsamar's pink color was not adopted because of its alleged therapeutic value, its soothing qualities or its use in similar remedies. The undisputed evidence is that it was adopted for the sole reason that it was an attribute of Pepto-Bismol. This fact alone would seem indicative of the intention to trade upon the dress of a competitor and taken together with the exploiting of the pink color in its advertising would constitute unfair competition. It is neither necessary nor proper to evaluate each non-functional appropriation above referred to. Unfair competition is based upon the appropriation of the non-functional attributes of Pepto-Bismol as a whole rather than upon the sum of its parts appraised individually.

Retaliation for an imaginary or real pre-existing wrong does not change the character of Sterling's acts. Ethical business practices and the morals of the marketplace (*Germanow v. Standard Unbreakable W. Crystals*, 283 N. Y. 1 at 15) permits no justification upon any such principle. Sterling may produce and sell

a better or cheaper remedy than Pepto-Bismol, based upon its formula. The common standards of fair dealing prohibit further encroachment. The conclusion that an injunction should issue, follows.

In considering the form of the relief to be granted, the following quotation from *Ronson Art Works* v. *Gibson Lighter Co.*; 3 A. D. 2d 227 at 231 is appropriate. "The relief granted should be tailored to achieve the nice balance of adequately redressing the wrong without the imposition of punishment for the exercise of a legitimate business function." It is therefore concluded that the plaintiff is entitled to an injunction restraining the defendant from simulating the pink color of Pepto-Bismol in its product, Pepsamar. If Sterling, however, desires to continue to use the pink color of its product, Pepsamar, same shall be distributed in the blue colored glass bottle, (or other colored container concealing the pink color of its contents) which is used by Sterling in the marketing of many of its products. The injunction so granted shall restrain the defendant from the use of the descriptive pink color in the advertising of its Pepsamar product.

The above will constitute the findings of fact and conclusions of law in accordance with Rule 52 F. R. C. P. If the form of the judgment is not agreed upon, it may be settled on five days notice, and it is.

So ORDERED.

STEPHEN W. BRENNAN
United States District Judge.

Opinion of Court of Appeals

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

No. 290—October Term, 1958.

(Argued May 13, 1959 Decided November 9, 1959.)

Docket No. 25488

THE NORWICH PHARMACAL COMPANY,

Plaintiff-Appellee,

—v.—

STERLING DRUG, INC.,

Defendant-Appellant.

Before:

SWAN, HINCKS and MOORE,

Circuit Judges.

Appeal by defendant from a judgment in favor of plaintiff in the United States District Court for the Northern District of New York, Brennan, Chief Judge, which permanently enjoined defendant from displaying and advertising the color pink in connection with its product "Pepsamar."

Reversed.

Opinion of Court of Appeals

Lewis C. Ryan, Syracuse, N. Y. (Hancock, Dorr, Ryan & Shove, Philip T. Seymour, Paul R. Dohl, George A. Elber, Charles W. Shorter, Syracuse, N. Y., on the brief) for Plaintiff-Appellee.

John T. Cahill, New York, N. Y. (Cahill, Gordon, Reindel & Ohl, Kernan and Kernan, James A. Fowler, Jr., David Rasch, James S. Kernan, Jr., Raymond L. Falls, Jr., New York, N. Y., on the brief), for Defendant-Appellant.

Moore, *Circuit Judge*:

Plaintiff, a New York corporation, and defendant, a Delaware corporation, both engage in the manufacture of drugs and pharmaceutical products. For several years, plaintiff has marketed a pink liquid preparation, "Pepto-Bismol," designed to remedy minor stomach disorders. With the aid of extensive advertising, the sales of Pepto-Bismol have steadily increased; by 1955 plaintiff's product was nationally recognized and was undoubtedly the leader in the field of stomach assuagement. Defendant in 1955 introduced a comparable proprietary medicine, "Pepsamar," which was virtually identical to Pepto-Bismol as regards chemistry, color and flavor but dissimilar as regards container and label. The evidence indicates that defendant's decision to manufacture Pepsamar was prompted in part by retaliatory as well as competitive motives,[1] that defendant previously investi-

[1] Defendant's President expressed his pique at the fact that plaintiff sold its aspirin at a price lower than that of defend-

gated plaintiff's sales and advertising techniques, and that the pink color was emphasized in the advertising of Pepsamar.

Upon the theory that secondary meaning is no longer required in New York[2] to sustain a finding of unfair competition and the fact that pink is a non-functional attribute of plaintiff's product which defendant intentionally copied, the court below* permanently enjoined defendant from simulating the pink color of Pepto-Bismol in its product Pepsamar and manufacturing and selling such a product. This injunctive direction was immediately qualified by a proviso that it should not apply so long as the pink Pepsamar were sold in blue bottles or bottles of any other color which would "effectively conceal the pink color of the Pepsamar contained therein." Defendant was also enjoined "from describing its Pepsamar as pink in color, by words or illustrations, in any advertising of Pepsamar or any promotional material * * *." From this judgment defendant appeals.

Distaste for sharp or unethical business practices has often caused the courts to lose sight of the funda-

---

ant's aspirin, and informed the rival President that defendant would respond by marketing a pink upset stomach medicine. He added that defendant would refrain from using a triangular bottle (a distinctive feature of Pepto-Bismol) for its new product only because counsel so advised.

[2] As this is purely a diversity suit and as the parties maintain their principal places of business in New York, it is fair to assume that New York law applies, despite the multi-state ramifications of unfair competition. *Maternally Yours, Inc.* v. *Your Maternity Shop*, 2 Cir., 1956, 234 F. 2d 535, 540; *American Safety Table Co., Inc.* v. *Schreiber & Goldberg*, 2 Cir., June 22, 1959, at 1566.

* Judge Brennan's opinion, portions of which are included herein, is reported at 160 F. Supp. 427.

mental consideration in the law of unfair competition—protection of the public.[3] Added to this standard is a developing body of law which pertains only to business conduct, namely, that a court of equity will restrain such practices as constitute palming off, actual deception or appropriation of another's property. Viewed against this background, misunderstanding as to the essential elements of an unfair competition cause of action may well be dissipated.

Consumer protection has been limited to the prevention of confusion, i. e., the customer should not mistake defendant's article for that of plaintiff or believe that it derives from the same source as plaintiff's goods. It is in such context that secondary meaning inheres, and when this special significance attaches in the public mind to the non-functional attributes of its wares, a plaintiff need further establish merely the likelihood of confusion—or a defendant may rebut the effect of secondary meaning by proving that confusion is unlikely. Restatement of Torts, Sec. 741 (1938); *Lucian Lelong, Inc. v. Lander Co.*, 2 Cir., 1947, 164 F. 2d 395.

In cases where the New York courts have occasionally granted relief without proof of secondary meaning, one of the aforementioned predatory practices was established: In *Santa's Workshop, Inc. v. Joseph Sterling*, 488 2 A. D. 2d 262 (3d Dept. 1956), 153 N. Y. S. 2d 839, it was palming off; in *Oneida, Ltd. v. National Silver Co.*, 25 N. Y. S. 2d 271 (Sup. Ct. Madison Co. 1940) and *Avon Periodicals v. Ziff-Davis Publishing Co.*, 282 App. Div. 200 (1st Dept.

[3] See Judge Frank's discussion of the economic matrix from which the law of unfair competition has developed. *Standard Brands, Inc. v. Smidler*, 2 Cir., 145, 151 F. 2d 34, 37 (concurring opinion).

1953) it was actual deception; in *Dior* v. *Milton*, 9 Misc. 2d 425 (Sup. Ct. N. Y. Co. 1956), aff'd 2 App. Div. 2d 878 (1st Dept. 1956) and *Metropolitan Opera* v. *Wagner-Nichols Record Corp.*, 199 Misc. 786 (Sup. Ct. N. Y. Co. 1950), aff'd 279 App. Div. 632 (1st Dept. 1951), it was violation of plaintiff's property rights.[4] The federal decisions fall into the same pattern: *Artype, Incorporated* v. *Zappala*, 2 Cir., 1956, 228 F. 2d 695, and *Flint* v. *Oleet Jewelry Manufacturing Co.*, S. D. N. Y., 1955, 133 F. Supp. 459 (actual deception); *Upjohn Company* v. *Schwartz*, 2 Cir., 1957, 246 F. 2d 254 (palming off); *International News Service* v. *Associated Press*, 248 U. S. 215 (1918) (appropriation of property rights). Hence, the first comer may prevail if he proves secondary meaning plus likelihood of confusion on the one hand or that the second comer has indulged in one of the proscribed practices which equity will enjoin, on the other. The facts here neatly illustrate application of this rule.

Plaintiff, while correctly asserting that proof of secondary meaning is not always a prerequisite to securing relief, must fit its case into one of the remaining categories. This it fails to do. There is no evidence of an attempt or intent to pass off Pepsamar as Pepto-Bismol or to divert plaintiff's customers by means of deception. Defendant's finished product is quite dissimilar from that of plaintiff, not only in most of the details, *e. g.*, shape of the bottle, color of the label and appearance of the cap, but also in the overall effect upon the observer.[5] To the prospective

[4] See Note, 70 Harv. L. Rev. 1115 (1957).

[5] An appellate court is in virtually the same position as the trial judge to evaluate documentary evidence. *Upjohn Company* v. *Schwartz*, 2 Cir. 1957, 246 F. 2d 254.

purchaser the names on both bottles are in type large enough to be distinguishable at a reading distance of over twenty feet. The label covers most of the bottle. Pepto-Bismol's label is yellow with large red letters; Pepsamar's is white with even larger blue letters. Indeed, it stretches credulity to imagine a purchaser confusing these disparate articles. Moreover, the essential distinction in this area of the law, overlooked by the court below, is the difference between a deliberate attempt to deceive and a deliberate attempt to compete. Absent confusion, imitation of certain successful features in another's product is not unlawful and to that extent a "free ride" is permitted. *Charles D. Briddell, Inc.* v. *Alglobe Trading Corporation*, 2 Cir., 1952, 194 F. 2d 416.

Similarly, there is here no violation of plaintiff's property rights,[6] notwithstanding the fact that defendant investigated and presumably utilized some of the Pepto-Bismol marketing techniques. Such skills cannot be cornered; the competitor must only refrain from using them in such a way that the public is misled. To say that it is unethical for defendant to emphasize pink in its advertising merely begs the question, viz., can the color pink be monopolized in connection with an upset stomach remedy? That a color may become someone's exclusive property as a perpetual monopoly in connection with a specific product has been rejected by the courts throughout the years (*Upjohn Company* v. *Schwartz*, supra, note 5; *Camp-*

[6] Although still expanding, this category has been limited to instances of interference with confidential or contractual relations. See Judge Palmieri's thorough analysis of the misappropriation cases *Continental Casualty Co.* v. *Beardsley*, S. D. N. Y. 1957, 151 F. Supp. 28, 43-45, aff'd. 254 F. 2d 702, cert. den., 358 U. S. 816.

bell Soup Co. v. *Armour & Company*, 3 Cir., 1949, 175 F. 2d 795, cert. den. 338 U. S. 847 (1949); *Douglas Products, Inc.* v. *Levinson*, S. D. N. Y., 1955, 132 F. Supp. 180; *Radio Corporation of America* v. *Decca Records, Inc.*, S. D. N. Y., 1945, 51 F. Supp. 493; 3 Callman, Unfair Competition and Trade-Marks, p. 1105 (2nd Ed. 1950)).

Despite the fact that the trial court found "that the pink color has no functional value as the word is commonly used and understood," this conclusory finding rests upon too narrow a foundation. The function of a remedy, "For Upset Stomach" is to quiet the upset. Hence, although the court found "that the pink color and the ingredients producing same have no healing value in themselves," yet it recognized that the pink color was "designed to present a pleasing appearance to the customer and to the sufferer." From the court's premise that "a disordered stomach will accept that which is pleasing and reject that which is repulsive," a finding of functional value might well be made because a rejected stomach medicine scarcely has a fair opportunity to fulfill its function. See *Columbus Plastic Products* v. *Roma Plastic Corp.*, S. D. N. Y. 1953, 111 F. Supp. 623.[7] The court was undoubtedly influenced by defendant's intentional copying of plaintiff's pink color, but, as pointed out, this factor alone cannot be determinative.

While not relying on it, the trial court apparently

[7] It is not necessary, however, to decide whether the pink color, because of its purported psychosomatic effect, has a therapeutic value in upset stomach medicines. Cf., the broad definition of "functional" in the Restatement of Torts, Sec. 742, 1938. The medicinal ingredients, of course, are functional

found that secondary meaning had been established.[8] But the only proof offered by plaintiff to support this finding was its public-opinion survey, the results of which indicate no more than the popularity of Pepto-Bismol.[9] From the above analysis, it follows that where the plaintiff relies on this category, it must prove the existence of secondary meaning, and any notion that mere proof of deliberate copying without more shifts the burden to the defendant constitutes a misreading of *Mastercrafters Clock & Radio Co. v. Vacheron & Constatin Le Coultre Watches, Inc.*, 2 Cir., 1955, 221 F. 2d 464, cert. den. 350 U. S. 832. In that case there was abundant evidence of actual confusion, palming off and an intent to deceive. Judge Frank stated that the burden was on defendant to prove that the intended deception had not been con-

[8] The theory advanced here is not that any pink liquid means Pepto-Bismol to the public (and thus we are spared the bizarre picture of a sufferer consuming hand lotion in order to mollify his stomach) but rather that pink upset-stomach medicine is connotative of plaintiff's product.

[9] For criticism of a comparable survey, see *American Luggage Works, Inc. v. United States Trunk Co., Inc.*, D. Mass., 1957, 158 F. Supp. 50 aff'd 259 F. 2d 69. Proof of secondary meaning has traditionally entailed fairly rigorous evidentiary requirements. The term or characteristic must have "been used in such a manner, over such a period of time, and to such an extent that the purchasing public associates" it with the goods of a particular source. *Automatic Weaver Co. v. Easy Washing Machine Corp.*, N. D. N. Y. 1951, 98 F. Supp. 445, 450. It is therefore worth noting that evidence was introduced to show the existence, past or present, of at least 33 other pink upset-stomach remedies. Assuming, as contended, that these products have enjoyed limited commercial success, they at least serve to demonstrate plaintiff's heavy burden in proving the exclusive public association of pink and Pepto-Bismol.

summated.[10] Standing as it does on the conceded part-imitation and the ineffectual survey, plaintiff has failed to discharge its burden of proof and the judgment must be reversed. *Crescent Tool Co. v. Kilborn & Bishop Co.*, 2 Cir., 1917, 247 Fed. 297, 300.

Although the trial court referred to similarities of ingredients, of slogans, i.e., "For Upset Stomach," the use of "Pep" in the name,[11] and the breaking of the respective names into two lines, nevertheless none of these similarities was subjected to injunction or change. Properly so because no monopoly attached to attributes as functionally descriptive slogans. The names are recognizably different and "Pep" appears as an apocopate form of "peptic" pertaining to digestion, and used to describe many remedies. Limitation of the injunction to the suppression not of the pink colored medicine but only of the color which the purchasing public might see through a clear glass bottle is indicative that the court felt that plaintiff had preempted unto itself exclusively and forever this appearance of a pink color for a stomach medicine. As pointed out in *James Heddon's Sons v. Millsite Steel & Wire Works*, E. D. Mich., 1940, 35 F. Supp. 169, 174, "[t]here are only seven primary colors. These colors have been used ever since man first noticed the rainbow."

Reversed.

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[10] See *Wm. T. Piper Corp. v. Samuels*, 2 Cir., 1934, 69 F. 2d 76.

[11] "Pepsamar" had been a registered trade-mark belonging to defendant but for a somewhat different product.

Judgment of Court of Appeals

UNITED STATES COURT OF APPEALS

for the

SECOND CIRCUIT

At a Stated Term of the United States Court of Appeals, in and for the Second Circuit, held at the United States Courthouse in the City of New York, on the Ninth day of November one thousand nine hundred and fifty-nine.

Present:

HON. THOMAS W. SWAN,
HON. CARROLL C. HINCKS,
HON. LEONARD P. MOORE
Circuit Judges

THE NORWICH PHARMACAL CO.,

Plaintiff-Appellee

v

STERLING DRUG, INC.,

Defendant-Appellant

Appeal from the United States District Court for the Northern District of New York.

This cause came on to be heard on the transcript of record from the United States District Court for the Northern District of New York, and was argued by counsel.

ON CONSIDERATION WHEREOF, it is now hereby ordered, adjudged and decreed that the judgment of said District Court be and it hereby is reversed, with costs to the appellant.

A. DANIEL FUSARO
Clerk

Apr. 27

UNITED STATES COURT OF APPEALS

For the

SECOND CIRCUIT

THE NORWICH PHARMACAL CO.,

Plaintiff-Appellee

v.

STERLING DRUG, INC.,

Defendant-Appellant

290

JUDGMENT

UNITED STATES COURT OF APPEALS

SECOND CIRCUIT

FILED NOVEMBER 9, 1959

A. DANIEL FUSARO Clerk

Rules of Decision Act

(62 Stat. 944, 28 U. S. C., § 1652)

§1652. State laws as rules of decision.

The laws of the several states, except where the Constitution or treaties of the United States or Acts of Congress otherwise require or provide, shall be regarded as rules of decision in civil actions in the courts of the United States, in cases where they apply. June 25, 1948, c. 646, 62 Stat.

Federal Rules of Civil Procedure

Rule 52

Findings by the Court

(a) Effect. In all actions tried upon the facts without a jury or with an advisory jury, the court shall find the facts specially and state separately its conclusions of law thereon and direct the entry of the appropriate judgment; and in granting or refusing interlocutory injunctions the court shall similarly set forth the findings of fact and conclusions of law which constitute the grounds of its action. Requests for findings are not necessary for purposes of review. Findings of fact shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge of the credibility of the witnesses. The findings of a master, to the extent that the court adopts them, shall be considered as the findings of the court. If an opinion or memorandum

of decision is filed, it will be sufficient if the findings of fact and conclusions of law appear therein. Findings of fact and conclusions of law are unnecessary on decisions of motions under Rules 12 or 56 or any other motion except as provided in Rule 41 (b). [As amended Dec. 27, 1946, effective March 19, 1948.]

(b) Amendment. Upon motion of a party made not later than 10 days after entry of judgment the court may amend its findings or make additional findings and may amend the judgment accordingly. The motion may be made with a motion for a new trial pursuant to Rule 59. When findings of fact are made in actions tried by the court without a jury, the question of the sufficiency of the evidence to support the findings may thereafter be raised whether or not the party raising the question has made in the district court an objection to such findings or has made a motion to amend them or a motion for judgment.

FILE COPY

JAMES R. BROWNING, Clerk

IN THE

Supreme Court of the United States

OCTOBER TERM, 1959

No. 682.

THE NORWICH PHARMACAL COMPANY,

Petitioner,

against

STERLING DRUG, INC.,

Respondent.

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

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March 3, 1960.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1959.

No. 682

THE NORWICH PHARMACAL COMPANY,

Petitioner,

against

STERLING DRUG, INC.

Respondent.

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

Opinions Below.

The opinion of the District Court for the Northern District of New York (R. 660-70) is printed in the Appendix to the Petition herein (App. 1-15).* That opinion is reported at 167 F. Supp. 427.

The opinion of the Court of Appeals for the Second Circuit (R. 676-83), also printed in the Appendix to the Petition (App. 16-24), is reported at 271 F. 2d 569.

* References in this brief in the form "R. " are to pages of the Joint Appendix printed for the use of the Court below and filed as the record herein; references in the form "App. " are to the appendix annexed to the Petition; references in the form "R. App. " are to the appendix annexed to this brief.

Jurisdiction.

Jurisdiction is invoked by petitioner under 28 U. S. C. 1254(1).

Question Presented.

Although the Petition purports to present four questions to this Court, there is in fact a single question at issue. That question is:

> Under the law of New York, was petitioner entitled to enjoin respondent's use of the color pink in a stomach remedy without proving either that this color, as used in its own product, had acquired a secondary meaning or that there was any likelihood of confusion between the two products?

Statement of the Case.

The facts are substantially undisputed and were not the subject of any significant difference between the Court of Appeals and the District Court.

Both petitioner and respondent are large and successful companies and have engaged for many years in the business of marketing proprietary drug products.

Development of upset stomach remedies.

Doctors have long prescribed as upset stomach remedies mixtures containing as active ingredients bismuth subsalicylate, salol, zinc phenolsulphonate and methyl salicylate (oil of wintergreen) (R. 304-05, 309, 241, 274). These ingredients were unpalatable in powder form and were ordinarily mixed with a liquid, usually elixir lactated pepsin, a red liquid listed in the National Formulary (a standard pharmaceutical reference book) (R. 241-43, 247-48).

When these white powders were mixed with the red liquid, they produced a pink color of pleasing appearance (R. 242-44). Pink thus became the traditional and preferred color for such remedies (R. 305-06, 433).

Several proprietary drug companies, including petitioner, marketed a pink upset stomach remedy, having substantially these ingredients, early in this century (R. 433-34, 469-70, 483). One third-party witness testified that a product of this kind had been marketed "probably a hundred years ago" (R. 418-19). Over the years many companies marketed similar products, including some of the large drug chains:

> Rexall-Liggett, a very large drug chain with about 10,000 retail drug stores, put out its own brand about 1930 (R. 493).
>
> The Walgreen Company, with about 2,100 retail drug stores located all over the country, began marketing its own brand in 1939 (R. 504-06).

A striking omission in petitioner's statement of facts is the failure to mention or discuss the 33 pink stomach remedies of this same character which were put in evidence at the trial (R. 313-31). All of these remedies served the same medical purpose (R. 313-31).

All 33 of these stomach remedies had the same pink color.

29 out of the 33 had substantially the same three principal ingredients.

24 had the same wintergreen flavor.

19 carried the same "upset stomach" slogan.

The Court of Appeals was impressed with the significance of these 33 exhibits. The court said:

> "It is * * * worth noting that evidence was introduced to show the existence, past or present, of at least 33

other pink upset stomach remedies. Assuming, as contended, that these products have enjoyed limited commercial success, they at least serve to demonstrate plaintiff's heavy burden in proving the exclusive public association of pink and Pepto-Bismol" (App. 23, note 9).

Petitioner first began to advertise Pepto-Bismol about 1934 (R. 50) and in that year it spent $213 for that purpose (Pl. Ex. 3, R. 59 and 544). By dint of extensive advertising and promotion since that time petitioner, in spite of the lack of novelty of its product, has been able to make Pepto-Bismol by far the largest selling of the pink stomach remedies, to a large degree monopolizing the market for this type of product. In 1955 the sales of Pepto-Bismol in the United States amounted to some $7,600,000 (R. 61).

Respondent's decision to compete.

In 1955 respondent decided to compete with petitioner in this field. This decision was preceded by several market checks to determine what the sales of Pepto-Bismol were (R. 171-72, 177-78, 349). Respondent also secured some information, in no way confidential, as to petitioner's trade discount policy (R. 222). Petitioner characterizes these inquiries as "a series of surveys" and a "probe into Pepto-Bismol's sales and pricing policies" (Pet., pp. 9-10). The record reveals the extent of the exaggeration implied in those phrases.

In developing a product to compete with Pepto-Bismol, respondent used the same active ingredients and pink color, which had long been in the public domain (R. 309-10, 289-90). Respondent adopted, however, a packaging for its product which was entirely dissimilar from Pepto-Bismol.

"It stretches credulity to imagine a purchaser confusing these disparate articles."

The District Court made no finding as to the likelihood of confusion, and in fact made detailed findings with respect to the disparities between the packaging of the two products (App. 5, 7). The Court of Appeals spoke in no uncertain terms on this point. Looking at the bottles, the court discussed the differences in packaging as follows:

> "Defendant's finished product is quite dissimilar from that of plaintiff, not only in most of the details, e.g., shape of the bottle, color of the label and appearance of the cap, but also in the overall effect upon the observer" (App. 20).

The Court particularly emphasized the differences in labeling:

> "To the prospective purchaser the names on both bottles are in type large enough to be distinguishable at a reading distance of over twenty feet. The label covers most of the bottle. Pepto-Bismol's label is yellow with large red letters; Pepsamar's is white with even larger blue letters" (App. 20-21).

The court concluded:

> "Indeed, it stretches credulity to imagine a purchaser confusing these disparate articles" (App. 21).

"Pepsamar", the name chosen for respondent's product, was a name which had previously been registered by one of its subsidiaries as a trademark for use in foreign trade on another type of stomach medicine (Pl. Ex. 2, R. 31 and 542). That name had only one thing in common with "Pepto-Bismol", the syllable "Pep", which has frequently been used for digestive remedies. Defendant's Exhibit AQ shows that there are at least 122 names in the pharmaceutical and

related fields beginning with the syllable "Pep" (R. 364 and 644-57). Of these, 20 are used for upset stomach remedies and six were so used before Norwich's adoption of the name Pepto-Bismol in 1919 (*Ibid.*). The word "peptic" is defined in Webster's Dictionary as follows:

> "Pertaining to digestion; promoting or aiding digestion; digestive; as *peptic* sauces."

Each of the names, "Pepto-Bismol" and "Pepsamar", was broken on two lines on the label of the bottle. This was done in order to place the name on the small bottle in letters large enough to be readable at several feet (R. 351-52). This is necessary in marketing products which are displayed to the public on shelves in drug stores and supermarkets (R. 350-51). It would be absurd to suggest that, because petitioner had used large letters, respondent was required to use small ones.

Petitioner refers to other functional similarities between the two products, such as viscosity and pH, or degree of acidity (Pet., p. 11). It is also absurd to suggest that one maker can monopolize the proper thickness or acidity of a stomach remedy.

Both products carry the legend "For Upset Stomach". This is a common expression frequently used on stomach medicines either in liquid or tablet form (R. 53). It was used on 19 of the other pink products placed in evidence by respondent.

The decision of the District Court.

The District Court enjoined respondent from using the color pink in its stomach remedy unless the color was concealed by an opaque or colored glass bottle. The injunction also forbade respondent from any mention of the color pink in its advertising.

The District Court decided that, even though petitioner's product was not patented but was in the public domain, the petitioner was entitled to an injunction merely because respondent had intentionally copied it. The District Court held that a showing of secondary meaning was not required (App. 13). The District Court held also that petitioner was not required to show likelihood of confusion, but rather, that the burden was on respondent to show that there was no such likelihood. (*Ibid.*)

The District Court concluded further that the pink color was non-functional.

The District Court made no formal findings of fact but stated that the opinion would constitute the findings of fact and conclusions of law in accordance with Rule 52 (App. 15).

The decision of the Court of Appeals.

The Court of Appeals reversed. It concluded that, under the New York cases, plaintiff was required to establish a secondary meaning. It also concluded that the pink color was functional. Either of these conclusions required reversal of the judgment of the District Court.

In discussing the requirement of secondary meaning, the Court of Appeals reviewed the New York authorities and concluded that the New York courts will dispense with that requirement only where certain predatory practices are established. The court continued:

> "the first comer may prevail if he proves secondary meaning plus likelihood of confusion on the one hand or that the second comer has indulged in one of the proscribed practices which equity will enjoin, on the other. The facts here neatly illustrate application of this rule.
>
> "Plaintiff, while correctly asserting that proof of secondary meaning is not always a prerequisite to

> securing relief, must fit its case into one of t remaining categories. This it fails to do" (App. 2

After holding that a showing of secondary meani was necessary, the court further held that no secondar meaning had been proved. The court pointed out tha petitioner's effort to establish secondary meaning reste entirely on a public opinion survey which proved "n more than the popularity of Pepto-Bismol" (App. 2 Apparently petitioner does not now challenge this aspe of the decision of the Court of Appeals.

In rejecting the District Court's conclusion that th pink color was non-functional, the Court of Appeals said:

> "this conclusory finding rests upon too narrow a foundation. The function of a remedy 'For Upse Stomach' is to quiet the upset. Hence, althoug the court found 'that the pink color and the ingredi ents producing same have no healing value in them selves,' yet it recognized that the pink color wa 'designed to present a pleasing appearance to th customer and to the sufferer.' From the court's premise that 'a disordered stomach will accept that which is pleasing and reject that which is repulsive,' a finding of functional value might well be made because a rejected stomach medicine scarcely has a fair opportunity to fulfill its function" (App. 22).

The court continued in a footnote:

> "It is not necessary, however, to decide whether the pink color, because of its purported psycho somatic effect, has a therapeutic value in upset stomach medicines. Cf., the broad definition of 'functional' in the Restatement of Torts, Sec. 742 (1938)" (App. 22, note 7).

Argument.

The Court of Appeals carefully applied the applicable state law. Petitioner merely disagrees with the conclusion of the Court of Appeals as to what the New York cases hold. The Court of Appeals' application of the New York law was correct and is fully supported by the New York authorities.

Nor did the Court of Appeals reject any finding of fact made by the District Court. Rather, it disagreed with the lower court as to the legal effect of those facts.

I.

The Court of Appeals recognized that the New York law was applicable and applied that law.

Petitioner claims that the decision "brings out into the open" a "conflict" between the unfair competition law enforced in the Second Circuit and that enforced in the state courts in New York (Pet., p. 28). Petitioner charges that since "this conflict has been brought out into the open" this Court must "take a hand". Petitioner asks this Court to compel the Court of Appeals "to give up its practice of ignoring the New York law of unfair competition . . ." (Pet., p. 29).

There is no such "conflict" and no such "practice of ignoring the New York law." Petitioner has resorted to this diatribe as a rhetorical device.

The Court of Appeals explicitly recognized the applicability of the New York law when it pointed out in a footnote in its opinion in this case that:

> "As this is purely a diversity suit and as the parties maintain their principal places of business

> in New York, it is fair to assume that New York law applies, despite the multi-state ramifications of unfair competition" (App. 18, note 2).

Annexed as an appendix to this brief is another opinion written by Judge Moore for the Court of Appeals at the same time as the decision in the present case. *Speedry Products, Inc.* v. *Dri Mark Products, Inc.*, 271 F. 2d 646 (2d Cir. 1959). That decision was handed down on Friday, November 6, 1959 and the decision in the present case on Monday, November 9. The plaintiffs in both cases made the same argument—that the New York courts no longer require that plaintiff establish a secondary meaning. The Court of Appeals rejected this argument in both cases. In the *Speedry* case, Judge Moore carefully analyzed and classified the recent New York decisions. The two opinions may be read together as expressing the views of the Court of Appeals on this subject. Taken together, the opinions nicely illustrate the Court's careful attention to the New York law of unfair competition.

The Court of Appeals has frequently and consistently recognized that New York law applies in cases like this one. For example, in its recent decision in *The Upjohn Company* v. *Schwartz*, 246 F. 2d 254 (2d Cir. 1957), the court pointed out that:

> "To the causes of action for unfair competition, where jurisdiction is based upon diversity of citizenship, this appellate court will apply the law of New York, the State in which the acts of unfair competition were committed." (p. 257, note 3).

Indeed, the parties have been in agreement that the New York law governs the decision in this case. No one has ever suggested the contrary. Both parties looked both to the state cases and to the federal cases in determining what

the New York law was. In fact, in the Court of Appeals respondent pointed out that the New York law governed the burden of proof, as well as the other issues. Petitioner relied entirely on federal cases in arguing this point.

Petitioner suggests, however, that in spite of the parties' agreement that New York law was applicable and in spite of the Court of Appeals' own explicit recognition that the case was governed by New York law, the court nevertheless captiously refused to apply that law in arriving at its decision. Petitioner purports to derive this suggestion from the fact that the Court of Appeals cited more federal than state cases in its opinion. Petitioner further argues that these federal cases represent a line of authority parallel, but unrelated, to the New York authorities.

There is no substance to petitioner's suggestion.

First of all, the law of unfair competition in New York has not developed independently of the federal authorities. The history of the New York law of unfair competition has been a history of interplay and cross-fertilization between the state and federal decisions.

As the Court of Appeals pointed out in *Maternally Yours* v. *Your Maternity Shop*, 234 F. 2d 538 (2d Cir. 1956):

> "The practice in this Circuit, until very recently, has been to ignore the usually theoretical question of what law governs and to draw precedents from both federal and state (usually New York) courts." (p. 540, note 1).

And in *American Safety Table Co.* v. *Schreiber*, 269 F. 2d 255 (2d Cir. 1959), *cert. denied*, 361 U. S. 915 (1959), the court pointed out that:

> "State courts very generally consult the entire body of law in this field * * *." (p. 270).

Referring to the practice of the New York courts, the Court of Appeals said:

> "the New York courts commonly refer to federal cases." (p. 270, note 4)

The court went on to cite eight decisions by the New York Court of Appeals illustrating this point (*Ibid.*).

Much unfair competition litigation is in the federal courts, either because of diversity of citizenship or because it also involves trade-mark or patent claims. The state courts have not foreclosed themselves from this body of authority and there is no reason why a federal court should do so.

Petitioner's suggestion of independently developed bodies of state and federal law in this area is obviously groundless. There is some irony in the fact that Norwich's principal reliance, even now, is not on a state decision but on this Court's decision in *International News Service* v. *Associated Press*, 248 U. S. 215 (1918) (Pet., pp. 25, 28).

Petitioner's argument also ignores the fact that the federal cases on which the Court of Appeals relied were cases which themselves construed and applied New York law. For example, in pointing out that there had been "no violation of plaintiff's property rights," the court cited Judge Palmieri's "thorough analysis of the misappropriation cases" in *Continental Casualty Co.* v. *Beardsley*, 151 F. Supp. 28, 43-45 (S. D. N. Y. 1957), *aff'd*, 253 F. 2d 702 (2d Cir. 1958), *cert. denied*, 358 U. S. 816. In the *Beardsley* case Judge Palmieri discussed virtually all of the New York cases on which petitioner now relies and concluded that they failed to support the kind of argument which petitioner makes.

Petitioner condemns the Court of Appeals for relying on its own prior decisions in *Charles D. Briddell, Inc.* v.

Alglobe Trading Corp., 194 F. 2d 416 (2d Cir. 1952), and *Crescent Tool Co.* v. *Kilborn & Bishop Co.*, 247 Fed. 299 (2d Cir. 1917). Petitioner refers deprecatingly to the "'free ride' doctrine" of the *Briddell case* (Pet., p. 18) and the "rigidities" of the *Crescent Tool* case (Pet., p. 28).

The New York courts have not found these decisions incompatible with their own views. In *Herzman Scarfs, Inc.* v. *Baar & Beards, Inc.*, 203 Misc. 449, 118 N. Y. S. 2d 380 (1952), for example, the Supreme Court for New York County paraphrased the language of the federal cases and relied on both the *Briddell* and the *Crescent Tool* cases. Indeed, Judge Learned Hand's decision in *Crescent Tool* lies at the basis of much of the New York law of unfair competition and has been consistently cited and relied on in the recent New York decisions. Among the many recent New York cases relying on that decision are the following: *Marco Inc.* v. *Hampden Sales Association*, 273 App. Div. 297, 302, 77 N. Y. S. 2d 510, 515 (1st Dep't 1948); *Robert Simmons, Inc.* v. *Simmons King, Inc.*, 10 Misc. 2d 812, 814, 173 N. Y. S. 2d 95, 97 (Sup. Ct. N. Y. Co. 1958); *Litwin* v. *Maddux*, 7 Misc. 2d 750, 759-60, 164 N. Y. S. 2d 489, 499 (Sup. Ct. Queens Co. 1957). In the *Simmons* case the court pointed out that:

> "Free enterprise and the public interest in competition stand as a barrier to plaintiff's claim to a color scheme monopoly . . ."

and cited the *Crescent Tool* case for that proposition (10 Misc. 2d at 814, 173 N. Y. S. 2d at 97). In the *Marco* case the court relied both on *Crescent Tool* and on *Lucien Lelong, Inc.* v. *Lander Co.*, 164 F. 2d 395 (2d Cir. 1947), cited by the Court of Appeals in its opinion in this case (App. 19), in holding that plaintiff was not entitled to the exclusive use of a particular design unless he could establish secondary meaning.

It is perfectly apparent that the Court of Appeals fully recognized that the law of New York governed. It is equally apparent that the Court of Appeals determined what the New York law was in the same manner as a New York court would, that is, by examining the relevant New York and federal cases.

It is submitted that there is nothing in this case which makes it appropriate for this Court to reexamine the application made by the Court of Appeals of the New York law of unfair competition. This Court has often emphasized its deference to the Courts of Appeals in matters of local law. *E.g., Byrd* v. *Blue Ridge Rural Electric Cooperative, Inc.*, 356 U. S. 525, 529-30 (1958), *rehearing denied*, 357 U. S. 933; *Ragan* v. *Merchants Transfer & Warehouse Co.*, 337 U. S. 530, 534 (1949).

II.

The Court of Appeals correctly applied the New York law.

The Court of Appeals looked to and applied the state law in this case. The only remaining question is whether the court's application of that law was correct.

Petitioner suggests that the Court of Appeals failed to reach the result which would have been reached by a New York court. Petitioner contends that a New York court would have given a broad scope to the decision of this Court in *International News Service* v. *Associated Press*, 248 U. S. 215 (1918), and would have granted petitioner an injunction without proof that the pink color of its product had acquired a secondary meaning.

It may be noted, first, that the New York courts, no less than the federal courts, have recognized the limitations on

the principle of the *Associated Press* decision. In *Germanow* v. *Standard Unbreakable Watch Crystals, Inc.*, 283 N. Y. 1, 18-19, 27 N. E. 2d 212, 219 (1940), the New York Court of Appeals pointed out the extent to which the *Associated Press* decision turned on the peculiar facts of that case. Similarly, in *Raenore Novelties, Inc.* v. *Superb Stitching Co.*, 47 N. Y. S. 2d 831 (Sup. Ct. N. Y. Co. 1944), the court pointed out that the *Associated Press* case "can only be interpreted in relation to its own facts," citing the *Germanow* decision and Judge Hand's opinion in *RCA Mfg. Co.* v. *Whiteman*, 114 F. 2d 86 (2d Cir. 1940) (47 N. Y. S. 2d at 832-33). The court quoted with approval Judge Hand's comment that the *Associated Press* decision "cannot be used as a cover to prevent competitors from ever appropriating the results of the industry, skill, and expense of others." (47 N. Y. S. 2d at 833).

There are, of course, some New York cases which allow recovery for unfair competition where "palming off" is not involved and where "secondary meaning" is not proved. These cases were analyzed by the Court of Appeals in this case and in *Speedry Products, Inc.* v. *Dri Mark Products, Inc.*, *supra*, and by Judge Palmieri in *Continental Casualty Co.* v. *Beardsley*, 151 F. Supp. 28 (S. D. N. Y. 1957), *aff'd*, 253 F. 2d 702 (2d Cir. 1958), *cert. denied*, 358 U. S. 876. Those analyses make it clear that such recovery will be allowed only when facts exist of a kind not present in our instant case. As the Court of Appeals said in its opinion, the New York cases have allowed recovery without proof of secondary meaning only when certain "predatory practices" are established (App. 19).

No useful purpose would be served by repeating here the careful analysis made by the Court of Appeals and by Judge Palmieri. A few citations will illustrate the New

York courts' persistent requirement of a showing of secondary meaning where plaintiff alleges that features of his product have been copied.

In *Mavco Inc.* v. *Hampden Sales Association*, 273 App. Div. 297, 77 N. Y. S. 2d 510 (1st Dep't 1948), the plaintiff manufactured and sold a ladies' compact made of plastic and molded in the form of a jewel. Defendant purchased one of plaintiff's compacts on the market and, using it as a model, marketed a compact substantially the same in appearance. The court held the plaintiff could not recover without showing secondary meaning and that no secondary meaning had been proved. To the same effect are *Pocket Books, Inc.* v. *Meyers*, 292 N. Y. 58, 54 N. E. 2d 6 (1944); *Hotel Syracuse, Inc.* v. *Motel Syracuse, Inc.*, 283 App. Div. 182, 127 N. Y. S. 2d 483 (4th Dep't 1954), *aff'd*, 309 N. Y. 831, 130 N. E. 2d 620 (1955); *Regent-Sheffield, Ltd.* v. *Reo Products Mfg. Corp.*, 18 Misc. 2d 321, 187 N. Y. S. 2d 540 (Sup. Ct. N. Y. Co. 1959); *Robert Simmons, Inc.* v. *Simmons King, Inc.*, 10 Misc. 2d 812, 173 N. Y. S. 2d 95 (Sup. Ct. N. Y. Co. 1958); *Litwin* v. *Maddux*, 7 Misc. 2d 750, 164 N. Y. S. 2d 489 (Sup. Ct. Queens Co. 1957).

The New York courts have consistently recognized the principle stated by this Court in *Kellogg Co.* v. *National Biscuit Co.*, 305 U. S. 111 (1938), *rehearing denied*, 305 U. S. 674, when it said:

> "Sharing in the goodwill of an article unprotected by patent or trademark is the exercise of a right possessed by all—and in the free exercise of which the consuming public is deeply interested" (p. 122).

For example, in *Mavco Inc.* v. *Hampden Sales Association*, *supra*, the court explained the decisions in a number of leading cases, on which it relied, as

> ". . . based on an aversion to granting a monopoly to anyone who was unable to secure a patent or statutory trademark unless it clearly appeared that the public would be deceived as to the article it was purchasing or its origin" (273 App. Div. at 304-05, 77 N. Y. S. 2d at 517-18).

See also *Pocket Books, Inc.* v. *Meyers, supra*; *Robert Simmons, Inc.* v. *Simmons King, Inc., supra*; 3 *Restatement of Torts* 622 (1938 ed.).

The cases on which petitioner relies are illustrative of the proposition that proof of certain kinds of predatory practices will establish a cause of action for unfair competition. They in no way suggest that secondary meaning and likelihood of confusion need not be shown where plaintiff complains of product copying.

In *Electrolux Corp.* v. *Val-Worth, Inc.*, 6 N. Y. 2d 556, 161 N. E. 2d 197 (1959), relied on by petitioner (Pet., p. 26), the plaintiff, manufacturer of Electrolux vacuum cleaners, complained of defendant's use of its product in a "bait and switch" advertising scheme. It was proved that defendant advertised rebuilt Electrolux machines in order to gain admittance to people's homes, but then disparaged the Electrolux machines in order to sell another and more expensive product. The court held that this course of conduct, taken in its entirety, was "deceptive and harmful to the public interest" (6 N. Y. 2d at 569) and that it was actionable.

Petitioner relies particularly, as did the District Court, on the decisions in *Santa's Workshop, Inc.* v. *Sterling*, 282 App. Div. 328 (3d Dep't 1953), and 2 App. Div. 2d 262 (3d Dep't 1956), *aff'd*, 3 N. Y. 2d 757 (1957). That case involved a very unusual set of facts, a widely advertised tourist attraction in the Adirondacks, and did not involve any marketing of competive products. The opinion did not purport to upset or even discuss the decided cases in this field.

It is sufficient to refer to the Court of Appeals' careful analysis of the *Santa's Workshop* case in *Speedry Products, Inc.* v. *Dri Mark Products, Inc., supra.* The court pointed out that

> "The decision • • • in favor of the plaintiff in that case could easily have been grounded on a finding that secondary meaning had been quickly acquired. In any event the facts clearly demonstrate the type of predatory business conduct that a court of equity will enjoin whether or not there has been a showing of secondary meaning" (271 F. 2d at 650) (R. App. 6).

The court commented further that:

> "The facts showed such an obvious theft of the plaintiff's business ideas, physical layout and advertising that the fraudulent nature of the defendant's competition was most apparent" (271 F. 2d at 649) (R. App. 5).

Recent cases decided by the New York courts have refused to give to the *Santa's Workshop* case the meaning ascribed to it by petitioner. *Family Doctor Plan* v. *Group Health Insurance, Inc.*, 148 N. Y. S. 2d 779 (Sup. Ct. Bronx Co. 1956). The New York courts have continued to apply the secondary meaning requirement, just as they always did. *Hotel Syracuse, Inc.* v. *Motel Syracuse, Inc.*, 283 App. Div. 182, 127 N. Y. S. 2d 485 (4th Dep't 1954), *aff'd*, 309 N. Y. 831, 130 N. E. 2d 620 (1955) *Robert Simmons, Inc.* v. *Simmons King, Inc., supra; Litwin* v. *Maddux, supra.*

Pharmaceuticals, Inc. v. *United Whelan Corp.*, 123 U. S. P. Q. 565 (Sup. Ct. N. Y. Co. 1959), also relied on by petitioner (Pet., p. 27), was a case applying the general rule that plaintiff may recover where he succeeds in showing a likelihood of confusion resulting from defendant's copying of the identifying features of his product and its

labeling. In that case the court enjoined defendant from selling its product "Somnifac", which incorporated "practically every feature which the public would be likely to recognize in plaintiff's product," Sominex (123 U. S. P. Q. at 566). The court pointed out that plaintiff's and defendant's pills were identical and that "the shape of the bottles and the colors used on the labels are virtually the same" (*Ibid.*). The court held "the proper test to be applied is whether the public is likely to be confused" (123 U. S. P. Q. at 567). The court concluded that such confusion was likely.

This is in sharp contrast to the comment of the Court of Appeals in the instant case that "it stretches credulity to imagine a purchaser confusing these disparate articles" (App. 21).

The Court of Appeals carefully considered the New York authorities. It correctly held that petitioner's failure to prove secondary meaning and its failure to prove likelihood of confusion were fatal to its case.

III.

There was no deviation from the requirements of Rule 52.

Petitioner finally suggests that in concluding that the pink color of Pepto-Bismol was non-functional the Court of Appeals improperly rejected a finding of the District Court to the contrary.

This Court, of course, will reach this issue only if it determines that the Court of Appeals must be reversed in its holding that a showing of secondary meaning was necessary. If such a showing was necessary and was not made, as the Court of Appeals held, then it makes no difference whether the pink color of petitioner's product was functional or not.

The handling by the Court of Appeals of the District Court's "conclusory finding" (App. 22) was unexceptionable.

The District Court specifically found that:

> "the pink color and the ingredient producing same have no healing value in themselves" (App. 10)
>
> (This was conceded by both parties.)
>
> "* * * [the color] is designed to present a pleasing appearance to the customer and to the sufferer" (*Ibid.*).
>
> "It is readily understood that a disordered stomach will accept that which is pleasing and reject that which is repulsive" (*Ibid.*).

The Court of Appeals accepted these findings (App. 22). Indeed there could be little dispute over these basic facts. The Court of Appeals rejected, however, the District Court's legal conclusion that the color was non-functional. The Court of Appeals concluded, on the contrary, that the legal effect of the facts found by the District Court was to make the color "functional" as that term is used in the law of unfair competition.

The Court of Appeals relied on the broad definition of the term "functional" in Section 742 of the *Restatement of Torts*. As the *Restatement* points out:

> "* * * the shape of a bottle or other container may be functional though a different bottle or container may hold the goods equally well" (Section 742, *Comment a*).

It is well recognized that where a color renders a product more attractive or desirable, it is "functional". *E.g., Campbell Soup Co.* v. *Armour & Co.*, 175 F. 2d 795, 798 (3d Cir. 1949), *cert. denied*, 338 U. S. 847; 3 Callman, *Unfair Competition and Trade-Marks* 1105 (2d ed. 1950).

Petitioner seeks to treat the pink color as "a preferred dress" or "a matter of personal preference" (Pet. p. 30).

This ignores the fact that pink has become the traditional color for this kind of remedy. In any event, a design, shape, color, or other feature may be functional even though some other configuration might also be used and might be preferred by some people.

It is well settled that the "clearly erroneous" standard of Rule 52 has no application to conclusions of law, to mixed questions of fact and law, or to determinations of the legal significance of evidentiary facts. *E.g., United States* v. *United States Gypsum Co.*, 333 U. S. 364, 396 (1948); *Lehmann* v. *Acheson*, 206 F. 2d 592, 594 (3d Cir. 1953); *Stevenot* v. *Norberg*, 210 F. 2d 615, 619 (9th Cir. 1954). Even if that standard were applicable, there would be ample justification for rejection of the District Court's conclusion here as "clearly erroneous".

Conclusion.

The decision of the Court of Appeals was based on a careful analysis of the New York and federal authorities and of the findings of the District Court. It is submitted that the decision was in all respects correct, and that the petition for certiorari should be denied.

Respectfully submitted.

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March 3, 1960.

APPENDIX

Opinion of U. S. Court of Appeals.

SPEEDRY PRODUCTS, INC.,
Plaintiff-Appellant,

v.

DRI MARK PRODUCTS, INC., SUBURBAN DYERS & FINISHERS, INC., MILTON DINOWITZ d b a Commodore Stationers, LANART ASSOCIATES, INC., MILTON LANDIN and ARTHUR S. ROMM,
Defendants-Appellees.

No. 335, DOCKET 25550.

UNITED STATES COURT OF APPEALS,
SECOND CIRCUIT.

Argued June 9, 1959.

Decided Nov. 6, 1959.

(271 Fed. 2d 646).

Before HINCKS and MOORE, Circuit Judges, and SMITH, District Judge.

MOORE, Circuit Judge.

Speedry Products, Inc., plaintiff-appellant (Speedry) appeals from an order denying its motion for a preliminary injunction by which it sought to enjoin defendants-appellees (collectively referred to as "Dri Mark") from importing, manufacturing and selling a marking device known as "Dri Mark" on the grounds that it infringed the patents on Speedry's device known as "Magic Marker" and that it

"is so similar in appearance to the 'Magic Marker' that it will deceive the public into thinking that it comes from the same source as the 'Magic Marker'." Upon argument of the motion Speedry for purposes of the preliminary injunction relied only upon its claim of unfair competition. The court, after comparing the two markers, found that because of readily recognizable differences "The likelihood of confusion as to source is, to say the least, extremely doubtful"; that to grant the injunction requested could secure for Speedry the most important part of the relief that it could receive after trial; and that there was no showing of irreparable damage.*

The amended complaint contained three causes of action: (1) patent infringement; (2) trademark infringement; and (3) unfair competition in that defendants' use of "Dri Mark" (an alleged copy of "Magic Marker"), its style, dress, container and packaging were "all so similar to the 'Magic Marker' as to mislead the public into believing that the 'Dri Mark' and the 'Magic Marker' are produced from the same source," and that the public would purchase "Dri Mark" in the erroneous belief that it was the "Magic Marker."

This allegation constitutes a good cause of action in the field of unfair competition known as "palming off" or "passing off." Traditionally this type of action has required proof that a fraud is being perpetrated, i. e., that the defendant is so foisting his product on the market that there is resulting confusion or likelihood of confusion as to its source in the mind of the buying public (1 Callman, Unfair Competition and Trade-Marks (Sec. Ed. 1950) (p. 40)).

In order to succeed in its application for a preliminary injunction Speedry must show at least a reasonable probability of success in its main action, *Chas. D. Briddell, Inc.* v. *Alglobe Trading Corp.*, 2 Cir., 1951, 194 F. 2d 416, and that irreparable damage would result from a denial of the motion, *Joshua Meier Company* v. *Albany Novelty Mfg.*

* A previous motion for a preliminary injunction had been denied with leave to renew. Dimock, D. J., Dec. 5, 1958.

Co., 2 Cir. 1956, 236 F. 2d 144. Although in advance of the trial no final conclusions can be stated as to the facts; nevertheless an initial survey must be made in order to determine whether Speedry is entitled to preliminary relief. "The critical question of fact at the outset always is whether the public is moved in any degree to buy the article because of its source and what are the features by which it distinguishes that source" (Briddell, *supra*, 194 F. 2d page 419).

The competing products are hand ink marking devices consisting basically of small glass bottles containing various colored inks which pass by capillary action to felt nibs in a small tube protruding from the bottle and thence to the desired writing or marking surface. The color of the ink can be identified by a matching colored cap located over the nib. Both products, plaintiff's "Magic Marker" and defendants' "Dri Mark," are generally similar as to size and shape. The size and shape of any hand marking device is necessarily limited. It must be small enough to be held in the hand; yet be large enough to contain a sufficient quantity of the marking fluid and be tapered enough to enable the writing point or wick to be comparatively sharp.

The scope of potential size and shape of a marking device is definitely limited by its function and is somewhat analogous to that of the fountain pen. It can scarcely be argued that the first producer of a fountain pen would have been entitled to a perpetual monopoly via the unfair competition route of its size and shape. Although use of such generic terms as "functional" and "non-functional" is likely to lead to oversimplification and arbitrary classification, size and shape of an article of the type of these marking devices are highly functional. The mere copying of functional features, absent some fraudulent factor, is not unlawful. A contrary holding would be an unwarranted extension of patent and copyright protection.

Speedry argues that the "New York courts have held that the law of unfair competition no longer requires that plaintiff establish a secondary meaning for its product or business" citing *Santa's Workshop* v. *Sterling*, 3rd Dept.

1953, 282 App. Div. 328, 122 N. Y. S. 2d 488, *Avon Periodicals* v. *Ziff-Davis Pub. Co.*, 1st Dept. 1953, 282, App. Div. 200, 122 N. Y. S. 2d 92, and *Oneida Ltd.* v. *National Silver Company*, Sup. Ct. Madison Co. 1940, 25 N. Y. S. 2d 271. Several recent federal cases are also said to support this proposition. Thus, Speedry, in effect, represents that a cardinal principle of unfair competition, i. e., secondary meaning, has been completely discarded and repudiated as a requisite factor. Analysis of the cases does not justify this conclusion.

In *Mastercrafters Clock & Radio Co.* v. *Vacheron & Constantin-Le C. W.*, 2 Cir., 1955, 221 F. 2d 464, it was the identity of appearance of the clocks which rendered the conduct actionable. In *Noma Lites* v. *Lawn Spray*, 2 Cir., 1955, 222 F. 2d 716, the advertising and packaging of the products were so similar "as to entitle the plaintiff under state law to protection even without a preliminary showing of secondary meaning." But even there the court did not repudiate this factor, saying "The time period necessary for a product to acquire a secondary meaning may be quite short" (at page 717) and expressed no opinion "as to whether on the actual trial such secondary meaning can or cannot be shown." Likelihood of deception was the basis of the decisions in *Fancee Free Mfg. Co.* v. *Fancy Free Fashions*, D. C. S. D. N. Y. 1957, 148 F. Supp. 825 and *Gaylord Products* v. *Golding Wave Clip Co.*, D. C. W. D. N. Y. 1958, 161 F. Supp. 746.

Assuming the applicability of the New York law (*Maternally Yours* v. *Your Maternity Shop*, 2 Cir., 1956, 234 F. 2d 538), an analysis of the New York cases does not bring forth the conclusion Speedry urges. *Santa's Workshop* v. *Sterling*, *supra*, first came before the Appellate Division on an appeal from an order denying a motion to dismiss the complaint for failure to state facts sufficient to constitute a cause of action. As clearly disclosed in the *per curiam* opinion, there was a sufficient unfair competition allegation in the complaint. However, from a single sentence in this brief *per curiam*, quite unnecessary to the decision, stem the arguments made subsequently that the law of unfair

competition has been radically changed in New York State. The two cases cited in support of the statement were *International News Service* v. *Associated Press*, 248 U. S. 215, 235, 237, 39 S. Ct. 68, 63 L. Ed. 211, and *Hanover Star Milling Co.* v. *Metcalf*, 240 U. S. 403, 36 S. Ct. 357, 60 L. Ed. 713. The *International News* case rose out of a unique set of facts dealing with two large organizations engaged as competitors in the gathering, distribution and publication of news in newspapers throughout the United States. Because of the complexity of the facts the case is *sui generis*. Even there the decision was based largely upon fraud, the court finding that "Besides the misappropriation, there are elements of imitation, of false pretense, in defendant's practices" (248 U. S. at page 242, 39 S. Ct. at page 73). In the *Hanover Star Milling* case the misappropriation of words was even more flagrant, both parties using "Tea Rose" as a brand of flour. There the court found that "the tendency of the similarity of the brand and accompanying design, and of the make-up of the packages, to mislead ultimate consumers, is so evident, that it seems to us a case of unfair competition is made out" (240 U. S. at pages 423-424, 36 S. Ct. at page 364).

On appeal from a judgment in the plaintiff's favor in *Santa's Workshop* v. *Sterling*, 3rd Dept. 1956, 2 A. D. 2d 262, 153 N. Y. S. 2d 839, the court affirmed but reduced the judgment, one judge dissenting and voting to dismiss. The facts showed such an obvious theft of the plaintiff's business ideas, physical layout and advertising that the fraudulent nature of the defendant's competition was most apparent. Here most probably was a good example of the creation of a "secondary meaning" within a short time—the possibility which this court pointed out in *Noma Lites* v. *Lawn Spray*, *supra*. The plaintiff in Santa's Workshop, in July 1949, had set up a public entertainment and sales facility on one of the Adirondack Mountains which he called "Santa's Work Shop." He established a village, centering around Santa, his home, his work shop, St. Nick's Chapel, and his friendly animals. The enterprise was extensively advertised and from the outset became highly successful. The defend-

ant, also in the Adirondack region, almost immediately thereafter (1950) changed his advertising to "See Santa's Friendly Animals" and by road signs indicated that here, too, Santa Claus had an abode. Since one of the main automobile roads passed one of the defendant's places of business en route to the plaintiff's needless to say, the defendant definitely played upon and capitalized upon the plaintiff's unique village and his advertising thereof. Because of these factors and the proximity of the two competing places of business, there would be good reason for a court of equity to restrain the defendant's conduct and little difficulty in holding that plaintiff's establishment could almost immediately acquire "secondary meaning" in the minds of the public traveling in that area. The decision, therefore, in favor of the plaintiff in that case could easily have been grounded on a finding that secondary meaning had been quickly acquired. In any event the facts clearly demonstrate the type of predatory business conduct that a court of equity will enjoin whether or not there has been a showing of secondary meaning.

Because of failure to recognize the distinctions between the palming off cases and the misappropriation cases, both of which categories are generally regarded as falling within the field of unfair competition, much confusion has crept into the state decisions[1] and thence into the federal decisions.[2] It is due to that confusion that courts occasion-

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[1] Recovery allowed on theory of palming off without proof of secondary meaning: Avon Periodicals *v.* Ziff-Davis Pub. Co., 282 App. Div. 200, 122 N. Y. S. 2d 92; Catalina, Inc. *v.* Ganis, 207 Misc. 1068, 142 N. Y. S. 65; Murray *v.* Miller, Sup., 142 N. Y. S. 2d 857, modified 3 A. D. 2d 1008, 164 N. Y. S. 2d 257. Cf. Santa's Workshop *v.* Sterling, 282 App. Div. 328, 122 N. Y. S. 2d 488.

Proof of secondary meaning required: Maveo, Inc. *v.* Hampden Sales Association, 273 App. Div. 297, 77 N. Y. S. 2d 510; Herzman Scarfs *v.* Baar & Beards, Inc., 203 Misc. 449, 118 N. Y. S. 2d 380; American Merri-Lei Corp. *v.* Jet Party Favors, Sup., 123 N. Y. S. 2d 136. Cf. Pocket Books, Inc. *v.* Meyers, 292 N. Y. 58, 54 N. E. 2d 6.

[2] Cases containing holdings or dicta that proof of secondary meaning is not necessary in product copying cases: Noma Lites *v.* Lawn Spray, 2 Cir., 222 F. 2d 716; Upjohn Company *v.* Schwartz,

ally have said that secondary meaning is not a necessary factor without restricting that observation to the misappropriation cases in which recovery seems not to depend upon the confusion or deceit of the public. Thus in such of these misappropriation cases as did not involve a palming off, there was a certain logic in saying that proof of a secondary meaning for a plaintiff's service or product is not essential for recovery.

Guided by these principles the facts do not meet the standards necessary to support a preliminary injunction. An examination of the two markers shows that there is no such likelihood of confusion either as to source or as to the product as to justify preliminary relief. The coloring on the "Dri Mark" cover is quite distinct from the "Magic Marker"; the front of the "Magic Marker" is predominantly red with some black and white; the front of "Dri Mark" is predominantly white with some red. While the back of both markers is basically red lettering on a white background, there are marked differences between them; the lettering on "Dri Mark" is about half the size as on the "Magic Marker" and some of the lettering of the "Magic Marker" is in white contrasted against three wide red strips whereas the "Dri Mark" is solid white with the red letters. The lettering itself is substantially different. The trade names are prominently displayed on each. The words and their arrangement on the covers are quite distinct. Although both use the colored caps to identify the color of the ink in the bottle ("Magic Marker" has 9, "Dri Mark" has 12) Speedry's is long, narrow and made

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2 Cir., 246 F. 2d 254, 261-262; Joshua Meier Co. v. Albany Novelty Mfg. Co., 2 Cir., 236 F. 2d 144, 148; Norwich Pharmacal Co. v. Sterling Drugs, Inc., D. C., 167 F. Supp. 427, appeal pending; Flint v. Oleet Jewelry Manufacturing Co., D. C., 133 F. Supp. 459.

Cases taking the position that proof of secondary meaning is necessary in product-copying cases: Chas. D. Briddell, Inc. v. Alglobe Trading Corp., 2 Cir., 194 F. 2d 416; Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-Le Coultre Watches, 2 Cir., 221 F. 2d 464; American Safety Table Co. v. Schreiber, 2 Cir., 269 F. 2d 255, 266; Kramer Jewelry Creations v. Capri Jewelry, D. C., 143 F. Supp. 120.

of metal, while "Dri Mark's" is wider, stubbier and made of plastic. The packaging is entirely different. The "Magic Marker" is placed in a cardboard container, twelve to a box, separated by an egg-type spacer. "Dri Mark" is placed in an individual container and six of these are then shipped in a packing carton. The wide price differential is also a significant factor. It is true that the proof indicates that a Speedry marker was sent to Japan for the purpose of having a similar marker made and produced there for sale in the United States. Production under different labor and living standards may well account for the wide price differential. However, it is not for the courts to pass upon the economic or public policy considerations of the situation but only upon the unfair competition aspects.

In addition, on an entirely separate ground the order below must be affirmed. Speedry failed to show that irreparable harm would result should the preliminary injunction be denied.

The order appealed from is affirmed.